

SYNERGISTIC CO-OPERATIONS IN THE COSMETIC INDUSTRY

Learning and Convergence between Firms and Social Media

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Abstract

Hallyu's creative content, in the form of dramas, music, and movies, has not only expanded and popularized Korean beauty (or K-beauty) products, but has also helped sell Korean fashion and aesthetics throughout the world. This study examines the various success factors behind K-beauty's competitiveness—particularly by emphasizing the interactive roles of creative content, cosmetic firms, and make-up artists working through their vlogs based on social media and the resultant convergence effects—which has propelled the rapid growth of the K-beauty industry. On top of the cosmetic firms that utilize diverse and effective strategies to penetrate the global market, professional and semi-professional make-up artists have helped spread K-beauty beyond product sales. They offer make-up lessons on social media, which has become enormously successful in spreading Korean-style cosmetics. In this paper, the co-operation between popular beauty vloggers and firms is explained through the new role of social media. This study explains how the convergence of firms and vloggers has connected and established a business ecosystem that generates synergy through the four co-operations of co-existence, co-learning, co-creation, and co-evolution.

Keywords

convergence; co-operation; *Hallyu*; K-beauty; learning; social media; synergy creation

About the Author

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INTRODUCTION

The global cosmetic industry is worth US\$ 523.4 billion and enjoys a steady growth rate of 7.14 percent (“Global”). Although this industry is saturated and dominated by established firms from Europe and the United States (US), Korean firms have recently been successful in increasing their market share and popularity. K-beauty is a term used to describe Korean beauty products—from make-up, fashion, to skin-related medical treatments—and its growth follows the trajectory of other industry trends within the overarching movement of *Hallyu*, or the Korean Wave. The close connection to *Hallyu* content such as K-drama, movies, and pop music is what sets K-beauty apart from other global cosmetic industries. Therefore, unlike other brands, K-beauty has a global fandom who likes to mimic the fashion and cosmetic style of Korean women.

K-beauty has emerged as one of the most profitable industries since the 2000s. Amidst the slowing general trade volume of other goods and services, K-beauty exported more than US \$3.7 billion in 2016. In China, K-beauty products acquired the second largest share of the industry’s market at 18 percent, following France, which had a share of 25 percent. Other global leaders in the industry, such as the US and Japan, received a smaller share, with each acquiring 14 percent. According to Korea’s Ministry of Food and Drug Safety, the average export growth rate of the cosmetic industry was 61.5 percent in 2017 (Ju 681). Moreover, Korean cosmetic brands are considered trendsetters in China as well as the rest of the world including France and the US. Sephora—a French cosmetic retail chain under LVMH that operates 2,300 stores across 33 countries since 1970—now has a separate K-beauty guide for both of its online and offline branches. The spread of K-beauty is global, and fans of Korean cosmetic products are growing not only in Asia, but also throughout Europe, the Americas, Australia, and the Middle East (Ju 681). Most notably, Korean cosmetic products are patronized for their technological innovations as well as their effectiveness and affordability. Furthermore, K-dramas and K-movies that show Korean entertainers with unique and appealing hair and make-up styles have directly impacted the demand for Korean beauty products (Kim 13-14).

The secret behind K-beauty’s tremendous growth in the global market is the intertwined nature of its business. There are large multinational corporations (MNCs) such as AmorePacific (hereinafter, referred to as Amore) and LG Household & Healthcare (hereinafter, LG) that have diversified their growth by targeting premium markets. By 2017, Amore stood as a leader in the Korean cosmetics sector and became the seventh largest cosmetics company in the world, competing head-to-head with other leading companies such as L’Oréal and Estée Lauder (Barnett, Rhee, and Shin 1). There are also firms that produce more price-competitive products that dominate the low-end consumer markets with their price-efficient

yet affordable products (e.g., sheet masks). Missha, which was founded in 2002, is an early example of a company with an inexpensive product range, and other firms such as The Face Shop, Etude House, Skin Food, Innisfree, and Tony Moly soon followed its lead in the global market. These firms have enjoyed an annual profit of US\$ 90 million since the 2010s.

Most of the existing studies on K-beauty focus on the performance of these leading firms in both high- and low-end consumer markets. However, beauty vloggers (or video bloggers) are one of the most important contributors to the industry and are one of the factors that have led to the rapid expansion of K-beauty. Vloggers autonomously introduce tips and techniques that focus on the Korean style of beauty and looks to enthusiasts around the world. These beauty vloggers are often referred to as the ambassadors of the fast-growing K-beauty industry, which has become known as a global success story (“Top 10”). The influence of social media is growing around the world, and Korea is not the only place where these vloggers actively create trends. The worldwide spread of social media platforms such as *YouTube*, *Twitter*, *Instagram*, and *Pinterest* are deliberately utilized by businesses to promote and sell their products. What is more significant is that the roles of these social media platforms and content creators have evolved from their previous functions.

Elle, a popular fashion magazine, introduced eight Korean-beauty YouTubers because the editors are “completely obsessed with Korea’s advanced beauty technology” (“Beauty YouTubers”). The spread of K-beauty is a good example of how social media—which is filled with professional and semi-professional beauty vloggers known as Influencers or YouTubers—plays a significant role in the growth of the cosmetic industry. Popular vloggers include former make-up artists (such as Pony and Risabe, who used to work with K-pop idols) as well as semi-professionals (such as SSIN, daddoa, and amuqe). These vloggers receive a similar level of popularity as *Hallyu* celebrities across social media (“Top 10”).

Despite the cosmetic industry’s growing success amidst and because of these multifold factors, it has rarely been the focus of studies in management literature (Jones 886), even though it is one of the largest among the cultural and creative industries (Friedman and Jones 237). This study analyzes the strategy behind K-beauty by focusing on the convergence effect between its two greatest contributors: firms and social media vloggers. K-beauty was able to quickly develop by creating a healthy ecosystem where synergies were formed along the four co-operations (i.e., co-existence, co-learning, co-creation, and co-evolution) among the firms and beauty vloggers. Academically, the contribution of this paper lies in identifying and specifying the learning and convergence effects by integrating and expanding earlier perspectives on synergy creation. This research shows that

success requires co-operation within the business ecosystem, and that different actors must co-operate for greater synergy creation. Ultimately, this paper explains how the K-beauty industry was able to gain sustainable competitiveness through the perspective of co-operative behavior among its various actors.

THE INFLUENCE OF SOCIAL MEDIA: CONVERGING ROLES OF FIRMS AND VLOGGER

Beauty vlogs (video blogs) are a prominent category on *YouTube* that offer tips on the latest hair, cosmetic, and skincare trends (Teixeira and Kornfeld 6). K-beauty has benefitted extensively from these beauty vlogs. This section critically reviews the important theoretical concepts that describe the changing role of social media in the industry. Specifically, this review demonstrates how social media has shifted the circulation of information from a firm-oriented dispersal to a more simultaneous, integrated, and co-operated dissemination that involves both consumers and beauty experts. K-beauty has developed with the help of beauty vloggers, who have emerged independently from firms. Gradually, these two groups began working together by engaging the experience and knowledge of both sides.

The impact of social media has grown over the years, and firms have used various digital channels in their business activities to share information and attract consumers. Consequently, studies that focus on the influence of social media have increased parallel to this growth. However, most of the existing studies (e.g., Ashely and Tuten 15) and marketing experts tend to adopt a narrow focus regarding the use of social media, usually establishing it as a tool that firms use for branding (e.g., creating brand identity, brand positioning, etc.). Other important studies that explore this trajectory include the works of Jalilvand and Samiei (460-463) and Rezvani, Hoseini, and Samadzadeth (2), which study the effects of social media as a tool for electronic word-of-mouth (eWOM). Additionally, Cova and Pace (1087-1088) and Brodie et al. (105-114) look into virtual brand communities and brand fan pages. In sum, firm-created social media has mostly been considered an essential element of any company's promotion and advertisement (Mangold and Faulds 357-365). These studies have gradually expanded to reflect more consumer perceptions, as more studies reveal that firm-created social media does not affect how consumers view brand value (Schivinski and Dabrowski 204). The diminishing impact on consumer perception is mainly related to the regarded credibility of firm-created information. Previous studies, which were narrowly dependent on company-centered social media, gradually changed.

In fact, the spread of social media has become increasingly dependent on consumers who actively create content that review products or support certain firms. As Schmitt points out, in today's business world, "psychological engagement is important because consumers are not passive recipients of information; they are participants" (8-9). An important inference from this statement is that participants who create social media content and retain a sizeable following are more than just consumers; they are third-party influencers that bring out new and positive product features and are creators who autonomously augment the content of cosmetic firms. Social media platforms such as *Facebook*, *YouTube*, and *Twitter* serve as channels for marketers and brand managers to co-operate with influencers and consequently, increase the visibility of brands through their viewership (Smith, Fischer, and Yongjian 103). Since consumers tend to judge information provided by other individuals as more trustworthy and credible (Pornpitakpan 243), user-generated social media communication has a greater effect on consumers' overall perception of brands than content disseminated by firm-created social media platforms.

Berthon, Pitt, and Campbell argue that the advent of social media has transformed the traditional one-way communication into multi-dimensional, two-way, peer-to-peer communication (6). Schivinski and Dabrowski also highlight how social media platforms offer an opportunity for customers to interact with other consumers (189). This means that firms are no longer the sole source of knowledge dissemination (Li and Bernoff 9). However, according to Schivinski and Dabrowski, there are only few studies that focus on the responsive and interaction of firm-created and user-generated social media communication in terms of brand and consumer behavior. Moreover, studies that examine the effects of social media communications across industry-specific differences are scant (190).

A growing number of studies are now examining the interactive influence of social media on firms (i.e., producers) and social media users (i.e., consumer or vloggers). The benefit of interactive communication systems on social media platforms is that firms can pool and use the ideas and content of vloggers, thereby lowering communication costs as compared to when using traditional marketing channels such as TV and magazines (Krishnamurthy and Dou 2). However, these earlier studies fail to discuss how social media is used as a platform for a third-type of contributor—vloggers—that bridge the conventional role between producers and consumers.

Figure 1 compares the conventional with the new role of social media. Traditionally, content was strictly divided between firm-created and consumer-generated content; there was no clear connection or exchange between the two types. However, as the new trend in social media illustrates, there is a more active

and participative role among firms and consumers through vloggers. They emerged as new actors in the realm of social media that influence both producers and consumers, while also working co-operatively to enhance synergy. Furthermore, as Schivinski and Dabrowski point out, there are only few studies that analyze the role of social media at an industry-level. The cosmetic industry and its relationship with social media has not been specifically discussed in earlier studies. The following section will introduce the theoretical concepts that deal with *how* firms, consumers, and vloggers create synergy to enhance the overall competitiveness of the industry before supplying an industry-level analysis.

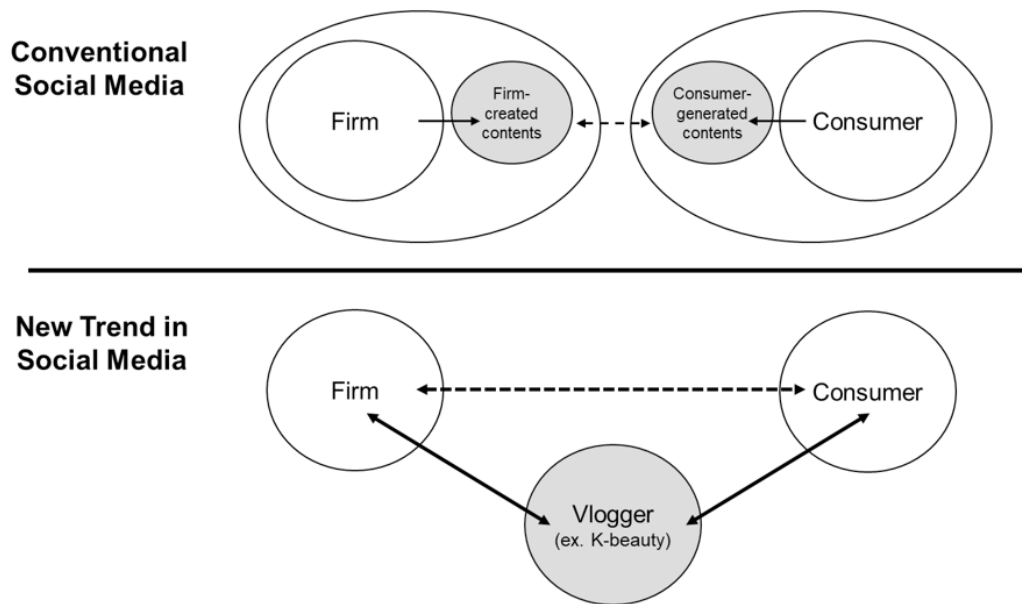


Figure 1. The Conventional and New Trend in the Use of Social Media

CONVERGENCE: CREATING SYNERGY THROUGH THE FOUR CO-OPERATIONS

The business environment is vastly changing, brought about by various technological breakthroughs and the blurring of industry boundaries. Alongside this, the advent of the fourth industrial revolution has also integrated the role of artificial intelligence, information technology, and smart phone applications with traditional industries and business areas. According to Jones (886) and Gunn (124), the cosmetic industry has a thousand-year long history, wherein beauty aids have been used by early human civilizations to further the biological imperative to attract and reproduce. The modern cosmetic industry, which involves factory

production and marketing, dates back to the nineteenth century in Europe and North America, and yet even this longtime established industry has begun to rapidly change with the introduction of modern technology. In fact, the cosmetic industry should no longer be treated simply as an independent sector since it represents the integration and influence of other industries spanning from culture, entertainment, and fashion, to chemistry, engineering, and bio-technology. Therefore, the increasing opportunities for convergence in the cosmetic industry can be most effectively utilized when treated and analyzed from a synergy-creation perspective. This section will briefly explain key concepts in business to discuss the synergistic implications of co-operative roles among diverse actors in this converging industry.

According to Moon's *The Strategy for Korea's Economic Success*, competitiveness is fundamentally linked to the success of an industry, and it is created and sustained by the simultaneous functions of agility, benchmarking, convergence, and dedication (i.e., the ABCDs). Each of these four factors is also composed of two other sub-factors, wherein agility requires speed and precision, benchmarking requires learning and best practice, convergence requires mixing and synergy, and dedication requires diligence and goal-orientation. A successful company or industry will demonstrate a high level of these ABCDs. Although all of the four factors and eight sub-factors are critical in enhancing competitiveness, this paper focuses on the learning and convergence factors to discuss K-beauty's success strategy. The convergence effect was selected because it best captures the critical essence which firms and vloggers blend to successfully create the achievements of K-beauty. As this paper examines the co-operative role between beauty vloggers and firms, an analysis that focuses on the convergence effect of these two actors renders more specific implications.

Synergy creation is the critical factor of convergence, and in its simplest form, it means *one plus one is greater than two*. Synergy is increased when various actors expand their sphere of influence through a strategic fit (Porter 11, 13-15) and combinative diversification (i.e., both related and unrelated diversification) (Y. Lee, "Cooperation-based" 58-60). When diverse actors come together, a business ecosystem is established by networking their value activities, and this serves as a platform of linkage (Moore, "New Corporate Form" 174-178; Adner 8; Li 380-381). According to Y. Lee's *Strategy for Sustainable Competitiveness*, various entities in the ecosystem converge and create synergy through co-existence, co-creation, and co-evolution (81-89). This study goes further by adding a new element called *co-learning*, which incorporates the benchmarking factor into a second process, one that occurs between co-existence and co-creation (refer to Figure 2).

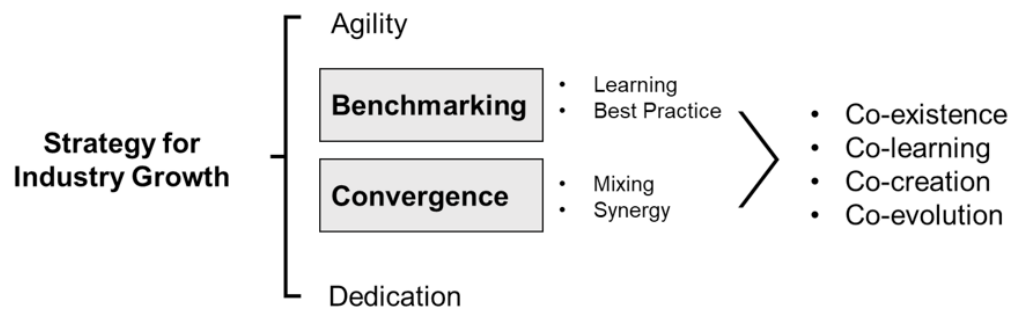


Figure 2. The Four Co-operations for Synergy Creation under Convergence

Figure 3 illustrates synergy creation's four co-operation processes, which occur inside the ecosystem when various actors converge. This inclusion is critical because prior to co-creation, firms and other actors engage in a repetitive cycle of cross-learning; this process of co-learning is also highly relevant to the K-beauty industry.

In fact, co-learning has been highlighted by previous business ecosystem theories. Co-learning may partially explain the mechanisms of co-evolution, the fourth stage, since it is defined as the evolution of interdependent firms and institutions brought about by participating in an endless reciprocal cycle, where a change in one firm can affect the status of another and across a variety of industries (Moore, "Business Ecosystem" 32). Here, the concept of "evolution" signifies how involved parties eventually learn and enhance their final product or the process of their value activities. Although learning occurs at most stages of business activities, it is an integral process that comes prior to the actual creation of a product. Firms and social media vloggers actively learn from each other before they create their own finalized products, services, or content.

The strategic management perspective argues that learning includes processes such as experience accumulation, knowledge articulation, and knowledge codification (Helfat and Peteraf 1001; Helfat and Winter 1243). Furthermore, in the new social media era, learning that occurs among vloggers and consumers is highly dynamic, simultaneous, and influential (Bingham and Conner 7-10, 19-22, 133), while significantly impacting the final products and services of the cosmetic industry. Most importantly, as Moon points out, "learning can drive innovation" ("Korea's Economic Success" 143), and when there is active cross-learning among the different groups (e.g., firms, consumers, and vloggers) in the ecosystem, the best practices in the industry can be most vibrantly exchanged and learned.

The other three processes are co-existence, co-creation, and co-evolution. These three are frequently mentioned in business ecosystem literature, with terms such as symbiosis, co-work, systematic co-operation, or complementarity. Co-existence is about how diverse entities come together to compose a business ecosystem. This paper has limited the diversity of the business ecosystem to firms and vloggers; however, there are other important participants such as research institutes and the government. Nonetheless, co-existence is also related to the “mixing” sub-factor in Moon’s ABCD model’s convergence strategy and his cluster strategy (“Silicon Valley” 4, 11-14).

Co-creation is less directly mentioned in earlier literature, but it has been assumed to mean and is sometimes referred to as niche creation, production creation, or simply innovation (Adner 2-11; Iansiti and Levian 72; Moore, “Business Ecosystem” 61-75). Product, service, or technology development are the most basic functional purposes of collaboration among firms. Successful innovation usually depends on co-operations among firms and other key implementers and adopters (Y. Lee, “Strategy for Sustainable Competitiveness” 84; Li 380-381). A good example of co-creation is how Intel, which provides core complementary microprocessor technology for Microsoft, engages in a co-development strategy with other firms (Chesbrough and Schwartz 56-58).

Lastly, co-evolution is about how participants upgrade their performance by using the previous three co-operations. With newly created products or services, all

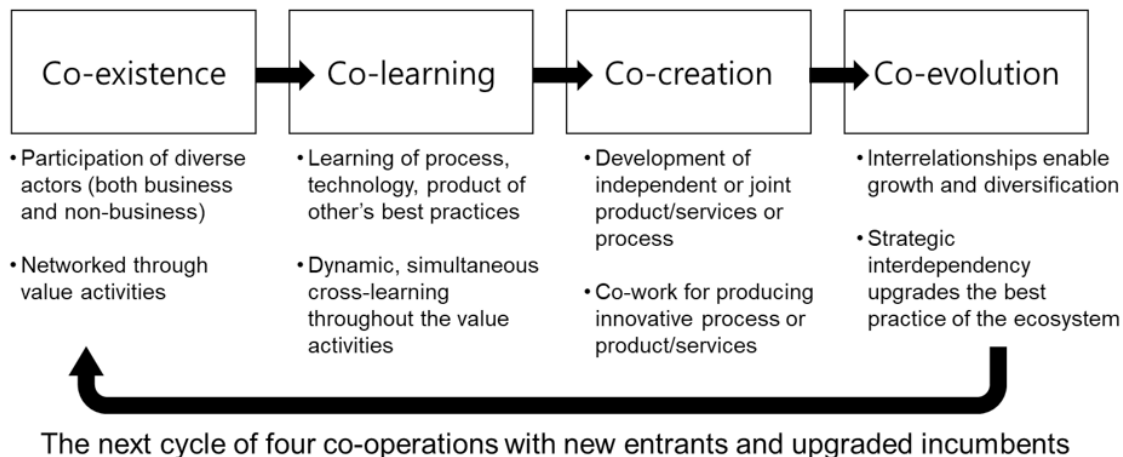


Figure 3. The Four Co-operations of Synergy Creation

of the participants in the business ecosystem as a whole experience improvements and innovation and even develop the industry's best practice. According to Moore, firms and other participants add value to a technology standard by supplying complementary assets to the core product ("Business Ecosystem" 32-36). Similarly, Adner indicates that business ecosystems allow firms to create value that no single firm could create alone (2). With a vision that extends beyond their current business operations or the technical specifications of one product, the synergistic co-operational value of an industry ecosystem is greater than the sum of its parts, and requires a variety of resources such as capital, partners, suppliers, and customers (Adner 2; Kraemer and Dedrick 6; Y. Lee, "Strategy for Sustainable Competitiveness" 84; Moore, "Predators" 75).

The following section will analyze the four co-operations in the domain of K-beauty. This is an important step in industry analysis because a well-established model allows for a more comprehensive and systematic evaluation, and consequently offers accurate implications for improvements.

THE CASE OF HALLYU AND K-BEAUTY

1. *Hallyu's* Impact on the K-beauty Industry

Hallyu refers to the spread of Korean culture (mainly in popular mainstream media such as TV dramas, music, and movies) that began in the 1990s. The global popularity of Korean content and culture has instigated an enormous demand for Korean products, which led to the creation of names such as K-food, K-fashion, K-beauty, and even K-cop ("K-cop"). The most popular destination of Korean exports used to be within Asia, but *Hallyu* has expanded to Western countries in recent years, which is where pop culture and its products and services were born. Although *Hallyu's* unique *Korean-ness* is what appeals to global audiences and consumers, it is nonetheless true that it is the hybridization of Western and Korean cultures that has succeeded in globalizing Korea-added universal features (Oh and Park 368; Shim 36).

Similarly, the role of *Hallyu* in spreading K-beauty throughout the world was fast and direct. In 2005, the success of the Korean drama *Dae Jang Geum* sparked interest not only in traditional Korean food and clothing, but also in the make-up style of Korean female celebrities. Cultural industries are highly associated with the image of their celebrities, and this directly increased the demand for Korean cosmetics (Kim and Oh 2). In addition, since the *Hallyu* boom was most evident in

China, the demand for Korean cosmetics increased exponentially. By 2012, exports to China were 3.4 times greater than that of domestic sales.

The role of *Hallyu* in generating a high demand for K-beauty has been discussed by a number of scholars. Some of the commonly discussed literature can be summarized into five groups (Kim and Oh 3-4). The first group of studies highlights the conformity effect. According to this perspective, the psychological need to conform to groups and peers pushes individuals to behave in sync to the norms of the group, and this psychological motive stems from a fear of exclusion (Bearden and Etzel 183-188; Solomon 193, 376-379). Scholars that follow this view argue that daily conversations among the trend-sensitive Chinese may have motivated them to consume Korean products. The second perspective focuses on brand identification, wherein consumers who identify with a celebrity will be more likely to purchase the Korean beauty products they endorse (Tildesley and Coote 627). For Asian consumers, this may be more relevant because the fashion and beauty aesthetic of Korean celebrities in dramas or movies may be easier to identify with than their own culture.

Academic efforts to explain the exponential growth of K-beauty have referred to the involvement mechanism of obsessed enthusiasts who watch and study the attributes of their chosen celebrities (Poisez and Cees 448-452). The fourth group of studies looks at cognitive fluency, wherein unconscious familiarity to a certain culture will blind the decision process by over-emphasizing the desired culture's positive sides (Constable et al. 47-52). A repeated accumulation of Korean content in *Hallyu* could have unconsciously eased consumers' mindsets to accept Korean culture and products more comfortably. The last set of literature adopts the balance theory, wherein a fan/consumer will balance out his/her psychological demands by choosing the product choice of a favored celebrity (Choi and Lee 124-127). This is related to why firms hire stars to advertise their products.

These five groups of studies seek to explain the spread of K-beauty and their relation to *Hallyu*. However, the core industry of *Hallyu* has been shifting away from K-drama and K-pop and has been moving towards K-beauty in recent years ("Homogenous"). In social media platforms, fashion and beauty-related content have the highest rates of increase among all *Hallyu* content. Furthermore, according to the 2016-2017 *Global Hallyu Survey* published by the Ministry of Culture, Sports and Tourism and the Korea Foundation for International Culture Exchange (KOFICE), fashion and beauty content received the highest rank at 59.7 percent; this percentage increased to 70 percent when including respondents from Russia, Thailand, Malaysia, and Indonesia. Social media platforms that show *Hallyu* content now include vloggers who follow the make-up style of Korean celebrities. More interestingly, K-beauty content has a larger spread on online channels than

via TV advertisements or programs (Lee and Lee 121). This is because the number of physical retail stores usually expands more slowly than online shopping sites. The consumers of K-beauty, therefore, have turned to online channels to receive information on the latest products, application tips, and styles.

2. The Four Co-operations as the Success Strategy for K-beauty's Synergy Creation

This section analyzes the success factors of K-beauty along the four co-operations mentioned in the earlier section of this paper. Through co-existence, co-learning, co-creation, and co-evolution, the participants in the K-beauty industry were able to gain and sustain their competitiveness in the global market. This research focuses on the interactive role and influence of firms and beauty vloggers and defines them as key constituents of the cosmetic industry's business ecosystem. In essence, synergy creation between the two actors has allowed K-beauty to enjoy global success in a small period of time.

2.1. Co-existence: Diversity in the Ecosystem

Co-existence in K-beauty is demonstrated by the vast portfolio of participating cosmetic firms, as well as the strong presence of related and supporting sectors, which include the bio-chemical industry and social media. According to industry experts, skin care products are K-beauty's strongest business sector, which uses differentiated ingredients such as green tea, ginseng, beans, and fermentation that require smaller molecules and fewer preservatives during formulation. K-beauty as an industry has a close relationship with science and engineering, and this connection helps create Korea's differentiated products. As Porter mentions, "the presence, breadth, and international success of related and supporting industries is influenced by the factor conditions, demand conditions, as well as aggressive rivalry" ("Competitive Advantage" 138). Factor-creating mechanisms—such as technology—influence the development of related and supporting industries in the cosmetic industry as well.

K-beauty is a highly diversified industry, but firms (whether related to low- or high-end products) have successfully globalized within the last fifteen to twenty years since *Hallyu's* boom (Oh and Kim 982-984). Amore, a cosmetic conglomerate ranked as the seventh largest company in the world, has thirty-two different brands, ranging from premium product lines such as Annick Goutal, Hera, and

Sulwhasoo, to low-cost ones such as Etude House and Happy Bath. Aside from Amore, K-beauty is swaying global markets with smaller-sized cosmetic firms that sell more affordable products. According to Ju, among the one hundred and fifty cosmetic brands that are sold at one of Korea's largest duty-free shops, seventy of them are low-to-mid cost brands (681). In short, K-beauty's globalization is dynamic and diverse because of the participation of a broad range of businesses.

Aside from this contribution of firms is the rapid spread of K-beauty which was made possible by the active participation of beauty vloggers, who introduced effective ways to use Korean skin care and cosmetic products. They helped pave the way for the globalization of physical retail stores, which spread internationally to meet the demands of other regions. As a new trend of social media communications, these vloggers were not hired or promoted by firms. They were independent, private make-up artists who voluntarily put content online. The strong and positive response from viewers facilitated a highly interactive exchange of information and needs, which is an advantage of economies of diversity. In 2018, BBC News published an article that introduced a male beauty vlogger. Since Korean men spend more on skincare per person than anywhere else in the world, we can say that K-beauty's scale of diversity has deeply penetrated the traditionally excluded male beauty market ("Male make-up").

According to Rahmi, Sekarasih, and Sjabadhyni, sources of information have little effect on purchasing intention or the consumer's perception of the credibility and expertise of the beauty vlogs' information sources. A more critical factor is the interaction between information sources and the previous experiences of consumers. This observation is highly relevant when studying the increasing popularity and the influence of K-beauty vlogs. The cosmetic industry has greatly benefitted from independently created vlogs that review and compare various beauty products, because their honest observations engender more trust from viewers.

2.2. Co-learning: Diverse Participation to Reach Best Practice

Co-learning naturally happens when there is a diverse mix of participants. East Asian philosophy places a strong emphasis on the role of harmony, which is accomplished through peaceful mutual acceptance during the acquisition of different ideas. According to Barnett, Rhee, and Shin, "the fusion of differences can be understood as a process where diverse concepts influence each other and come together in harmony. This is similar to how studying yin helps one to understand yang and vice versa, and how both have an effect on each other's existence" (3-4).

The most significant example of co-learning is perhaps best represented by the invention of the Air Cushion (a cushion-type make-up foundation), which was developed by Amore in 2008. The four-in-one product combines the features of a sun cream, a primer, a foundation, and has a cooling effect. Moreover, it is very convenient to use because of its sponge-type packaging. The Air Cushion was such a bestseller for Amore that it had a tagline of “one purchase per second.” Interestingly, the invention of this product, which has successfully registered twenty-four patents both domestically and internationally, was made possible after a careful study of parking stamp pads (J. Lee 45-46). If a lotion-type product was used with a sponge applicator, customers could then use this new product to easily reapply make-up and to maintain a natural look. Through the four-in-one strategy, the Air Cushion also allowed users to reduce the time required to apply a make-up from an average of 13 minutes to 7 minutes (Barrett 8).

The rigorous process of learning utilized to create the Air Cushion was highly rewarded, and this success was made possible through the simultaneous learning between the R&D centers of C-Lab and the consumers who gave immediate feedback during the trials. This invention was soon adopted by other global cosmetic brands such as Lancôme, who launched their Miracle Cushion and Blanc Expert Cushion Compact in 2015 and 2016, respectively. Clinique, L’Oréal, MAC, La Prairie, Sisley, Bobby Brown, Dior, and YSL—brands that are known for advancing premium and highly sophisticated cosmetics—all released their own versions of the cushion foundation. Ten years since its launch, the enhanced technology in Korea’s cosmetic industry has established a win-win scenario for all, where intense rivalry offers participants the chance to learn and improve (“Amore”).

The cushion foundation developed by Amore is a landmark product of K-beauty. The popularity of this product was amplified by beauty vlogs and online communities that created content, specifically, by juxtaposing color-contour or time-series observations of cushion foundations (J. Lee 56). The success of this product is what allowed K-beauty to emerge as a sophisticated and technologically advanced business, able to meet the standards of the global cosmetics industry. The attainment of global recognition of a Korean company in a market saturated with Western firms was only made possible with the significant help of vloggers and consumer reviews. As Barnett, Rhee, and Shin explain, Amore began by improving the general perception of the company’s product ingredients and utility. This process was highly interactive between consumers and professional artists (5). The cushion foundation was created after studying make-up users’ behavior—particularly re-touching—and examining the application of lotion, sunscreen, liquid foundation, and powder.

2.3. Co-creation: Synergistic Collaboration for New Opportunities

The real authorities in *YouTube*'s beauty-related content are not cosmetic brands but vloggers. According to a study, 86 percent of the 200 most-viewed videos on *YouTube* were created by influencers, not brands ("YouTube Influencers"). As mentioned in the earlier section, the role of social media has changed; one-sided, firm-created content is no longer popular due to a sense of mistrust among viewers. Consumers of beauty products have long been searching for authentic and knowledgeable voices whom they can trust and communicate with. These days, beauty brands are reaching out to actively partner with *YouTube* influencers and popular vloggers. For example, in 2010 L'Oreal contracted Michelle Phan, a young Vietnamese-American woman, and made her the official video make-up artist for Lancôme. Her first run of make-up tutorial videos received around 40,000 views per week, and she was one of the top five beauty vloggers in 2016. The subject matter of Phan's videos ranges from basic tutorials to recreating specific looks, such as those of popular movie characters or the make-up styles worn by Lady Gaga in her music videos (Teixeira and Kornfeld 8).

This shows a new generation of firm-vlogger collaboration across social media platforms. While earlier collaborations were single-handedly managed by firms directly hiring beauty experts or artists through advertisements, recent forms of collaboration are made through a more equal and open partnership between the two parties. Particularly in K-beauty, vloggers may be contracted in the form of product sponsorships, but they create their own vlogs without any interference or approval from the contract firm. This autonomy in content creation is what distinguishes the current group of vloggers from earlier ones, and this strategy has achieved increasing popularity and viewership. If earlier vlogs were controlled and disseminated by firms, the content is now co-created through simultaneous discussions and operations.

Another example of co-creation is how fashion influencer Jenn Im partnered with ColourPop Cosmetics. Jenn Im produces fashion, make-up, and lifestyle video content on a weekly basis, and has 2.2 million subscribers on her *YouTube* Channel and more than 1.6 million subscribers on Instagram. One of Jenn Im's most notable accomplishments is her collaboration with ColourPop Cosmetics and the launch of her own collection of beauty products called "Jenn Ne Sais Quoi," "Jeneration X," and "Dohee." Before the actual launch of her collection, she heightened anticipation using her social media platforms. Then she held a launch party, attended by many of her influencer friends, who would then vlog footage and upload them onto their own channels. With the increasing influence of social media, the co-creation effect between businesses, consumers, and vlogger also increase opportunities for synergy creation. Jenn Im exemplifies this situation, wherein not only the main

vlogger benefits, but less popular firm or new entrants to the industry can co-operate by utilizing social media as the external resource for their own competitive advantage.

2.4. Co-evolution: From Local-best to Global-best

The US WIPO report introduced Amore as “a highly successful Korean company that is in the process of making the quantum leap from a regional player to a global player in the cosmetics market” (108). However, unlike powerful global conglomerates such as Amore and LG, small-and-medium-size enterprises (SMEs) face more challenges when they try to reach a global audience by following the conventional process as foreign entries. Social media platforms have been extremely helpful for SMEs in the global market, and these firms actively engage the participation of vloggers.

SiliconTwo is a K-beauty platform, and its Studio K is fully equipped with utilities required for shooting videos of various products from many different brands. Studio K allows vloggers to test products on the spot to directly create vlog content. SiliconTwo launched Style Korean TV in 2018, with the aim of expanding its content business. Notably, any influencer can use the studio for free. The company also held a worldwide YouTuber contest in 2017, and the US winner was awarded a prize of US\$ 10,000. SiliconTwo’s CEO Kim Sung-woon has expressed that K-beauty should transform itself beyond the first generation of advertising, in which the cosmetics industry was simply about selling products. The next generation should be more content-oriented, where reviews, expertise, and information are shared along with the products. SiliconTwo works with companies such as Innisfree, Missha, Pyunkangyul, and Heimish to sell 10,000 products across 80 different countries, which includes China, Germany, Malaysia, and the United States (“Style Korean”).

The US import of beauty products in 2016 rose by 4.02 percent, while the share of major importing countries such as Ireland and France decreased by 5.44 percent and 1.09 percent, respectively. Meanwhile, as the largest importer of US, China’s import volume in cosmetic products grew by 21.24 percent. Despite China’s huge size, imports of Korean beauty products marked a growth of 47.85 percent from the previous year. Korea’s Ulta Salon, Cosmetics & Fragrance Inc., the top US retail outlet, is considering further expanding their Korean face mask line, while Sephora, the second largest US outlet, has a separate K-beauty section. As of November 2018, Walmart now offers Korean cosmetic products following Target which has been dedicating a K-beauty section on both its off- and online shopping sites since 2017 (“Era of K-beauty”).

K-beauty stands at an important transitional point where further success and sustainability requires more rigorous and strategic thinking. Through the co-existence of various participants, breadth and specialization are enhanced through the enhancement of skills, knowledge, and technology, and this development has an industry spillover effect that impacts all parties engaged in the business ecosystem (Porter, "Competitive Advantage" 138). Together with LG and Amore, the K-beauty firms are effectively diversified and balanced, ranging across both large enterprises (LEs) and SMEs. Although this may signal intense rivalry in the industry, there is a great deal of benefit to both consumers and firms as the industry reaps the benefit of economies of diversity (Y. Lee, "Cooperation-based" 59-60; Moon, "Korea's Economic Success" 111). When LEs and SMEs exist together, the number of opportunities increases for both types of firms to engage in value-enhancing activities through their network effect and along their value chain activities. K-beauty includes both high-end and low-end products that show competitiveness in advanced markets such as the United States. Synergy is increased as more firms emerge, and related industries expand the scale and scope of the K-beauty industry while also engaging in cross-learning.

CONCLUSION

The cosmetic industry has unique features compared to other cultural industries, where great focus lies in the creation of content sensitive to copyright. Although the cosmetic industry has its roots in the highly patent-sensitive chemical industry, its products are unique in the sense that they are used to create a sense of fashion or style. Cosmetic industries are influenced by the activities of various participants, such as producers, experts, and individual users. The interpretation and information created by beauty expert vloggers becomes new, independent content which significantly shapes consumer behavior. This is why beauty vloggers have a differentiated role from vloggers in other cultural industries.

K-beauty is a strong, core asset of *Hallyu*, and its economic benefits and spillover effects have an impact on other related industries such as science and engineering. This influence may bring out increasing competitiveness for Korea. Recent surveys on international perceptions toward Korea reveal that many respondents refer to Korea's beauty and fashion as the main image of the country. Considering that the North Korean threat still has a strong resonance outside of Korea, beauty and fashion's place in the consciousness of these respondents is significant. Reports show that K-beauty places higher than K-pop, and that Korean cosmetics rank third in product popularity, only behind Samsung gadgets and kimchi (KOFICE 7-9).

Despite the unique and increasingly important role of K-beauty, few studies have analyzed the success factors behind the industry in a comprehensive and integrated way. Although the cosmetic industry has a long business history, the increasing role of social media has had a great impact on the way it is run. This paper presents an important and unique approach by integrating the role of social media and private vloggers and exploring how they have helped catalyze the growth of the industry's global competitiveness. In order to provide a more accurate and systematic analysis of these new trends, this paper discusses the new role of social media by introducing vloggers as key influencers, and then describing how participants of the business ecosystem create synergy through the four co-operational aspects.

This study adopts the concept of learning, mixing, and synergy creation from the ABCD model, which is a new method for innovation and success. By integrating important business concepts such as business ecosystem, convergence, and social media communications, this research then provides a meaningful contribution to the study of the synergy creation within the K-beauty ecosystem and explains the enhanced the competitiveness of the networked participants. Academia engages with the integrated nature of business and industry studies by helping forward a comprehensive and integrated perspective regarding intangible concepts such as synergy. As analyzed throughout the paper, synergy is formed when two or more actors converge by maximizing the economies of diversity through co-existence, co-learning, co-creation, and co-evolution.

This paper derived strategic implications for K-beauty's participating firms and vloggers by maximizing their synergy through the four co-operational activities. Diversity or co-existence can be most enhanced by adding more firms and individuals to the ecosystem; co-learning can be done more dynamically by extending product boundaries; more incidents for co-creation can be investigated, possibly through different collaborations for a product launch or even different market entries; and lastly, K-beauty can simultaneously experience co-evolution as the three preceding processes occur and upgrade the participants' competitive advantage.

The rapid spread of beauty vlogs on social media helped K-beauty expand quickly, and consequently, it was able to reach global consumers more effectively than firms. Speed is the most powerful benefit of digitization, and K-beauty's success lies in the co-operation of firms and the beauty vloggers that featured their products and aesthetics. As the next step, the scope of co-operation can be gradually expanded by embracing foreign firms or vloggers from outside of Korea. A beauty vlog by non-Korean users can supplement the industry with new information for Korean users. Since different climates, skin tones, and other features relevant to geographic

or ethnic differences are critical to beauty products, non-Korean vlogs can provide useful tips for sustaining K-beauty's global success.

This paper provides a balanced perspective to the concepts of co-operation and competition. The media often focuses on the rivalry among diverse actors of business, society, and government, but there are more important complementary effects that occur when a diverse mix of actors converge. As in a cluster, the dynamic and different roles played by firms, institutions, and societies are critical in facilitating a healthy ecosystem. In future studies, K-beauty can also be analyzed through the cluster strategy to examine how the co-operations occur within domestic or global clusters. As an integrated industry, K-beauty encompasses an expansive cluster because it includes related and supporting sectors such as the entertainment industry, chemistry and science, and engineering. It then has a great impact on Korea's domestic and global competitiveness in the long run, serving as a critical asset of *Hallyu*.

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