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Master's Thesis

**Factors that Influence Direct Selling in the
Cosmetic Market**

**화장품 방문판매 시장 점유율에 미치는 영향
-요인분석 중심으로**

February 2018

Graduate School of International Studies

Seoul National University

Seoul, Republic of Korea

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국제학석사학위논문

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Cosmetic Market**

Presented by **HyeLim Kim**

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Abstract

Factors that Influence Direct Selling in the Cosmetic Market

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This paper investigates the relationship between direct selling in the cosmetic market and influencing factors. A hypothesized model was developed based on both indicator data analysis and related literature. The indicator data from the World Bank and Euromonitor covers 59 countries, including top leading market share countries (Peru, Mexico, Argentina, etc.).

In study, data were estimated by a multiple regression model to determine the probability of direct market share. The principal finding is that direct selling is influenced by cultural aspects. In the culture that has strong market share of direct selling, people tend to conceal their personal goal for the benefit of the majority and to maintain a good relationship with the group. As discussed earlier, cultural effects toward direct selling were tested by using surveys from salespersons or possible consumers. Due to difficulty of doing questionnaires in many countries, past studies are limited to just a few countries, commonly not more than two.

This study tried to further the research of early studies by using numerical indicators from 59 countries. In addition, much of the previous research was a great reference for determining more credible standards to select the study's variable indicators. Several indicator factors are related,

including alternative market channel purchases, information from the internet, kinship culture, and high population density.

The beauty cosmetic market is growing rapidly and the market share of direct selling is too large to be neglected. This work also offers guidance to companies that might benefit from the strategic use of starting direct-selling businesses in new regions.

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Key Words: Direct selling, Cosmetic market, Market share, influence factor

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Chapter I. Introduction

1.1 Introduction and Research Purpose

Recently, the cosmetics market has undergone a remarkable and rapid transition. Today many men use skin care products, and apply perfume before leaving home. The term 'male grooming' is no longer unknown on the cosmetics market. Men are becoming interested in cosmetic products, which were once recognized as being monopolized by women. Nowadays the whole world is addicted to cosmetics, and the interest in cosmetics is not related to a country's development. Distribution channels may differ, and more developed nations may provide more buying opportunities by means of department stores, commercial centers or pharmacies, but the interest in cosmetic products is equally high everywhere, regardless of age, gender and nationality.

However, the preferences for distribution channels of cosmetic products differ significantly, depending on the consumers' characteristics. There are various distribution channels, e.g. beauty specialist retailers such as Sephora, cosmetics brand stores in department stores such as Yves Saint Laurent, and drugstores/parapharmacies where cosmetics such as Vichy can be purchased. Direct selling may be an unfamiliar concept as it does not involve a physical shop, such as a department store, but is popular with successful international brands such as Amway and Mary Kay. Direct selling is not a store-based distribution channel, and the sales are conducted via personal contact between the seller and the consumer. In other words, in direct selling channels, the seller visits the consumer with some product samples and a catalog with an image of the product and helps the consumer to purchase it.

Relational marketing, which can be considered a key element of direct selling, can be either a strong or weak point, depending on the respective regional characteristics. For example, in a region that values relationships within a group, direct selling distribution channels grow at a very rapid pace

and easily increase market shares, while other areas may be difficult to approach. In accordance with the study by Merrilees, B., & Miller, D. (1999), 'Direct selling in the west and east', the reaction of the consumer in direct selling is remarkably different depending on region. In other words, preferences for using direct sales distribution channels vary greatly according to the cultural characteristics of the region.

Since the cosmetics market has only seen recently rapid growth, there is a lack of prior research on the specificity of direct selling. However, there are sufficient learning materials available that can be the basis of such research, as general relational marketing has been sufficiently studied and market research on direct selling has been actively carried out for industrial reports.

As the cosmetic field has begun to be attractive, studies about direct selling in that market tend to be focused on the cultural background of the researched region. The early studies pay attention to the effect of cultural specificity on direct selling through questionnaire surveys from direct selling consultants and consumers. Even so, this study supposes that there are more other factors besides culture that may affect the market share of direct selling in certain regions. The purpose of this study is to analyze the various factors in more detail, in order to discover why direct selling is spreading strongly in specific regions. Therefore, it commences by first analyzing a variety of specific factors by using statistical data. Second, by researching various factors other than culture, the study will determine the cause of why a specific region has a strong market share of direct selling as distribution channel. In addition, the study will use multiple regression analysis to verify whether the selected factors are actually significant.

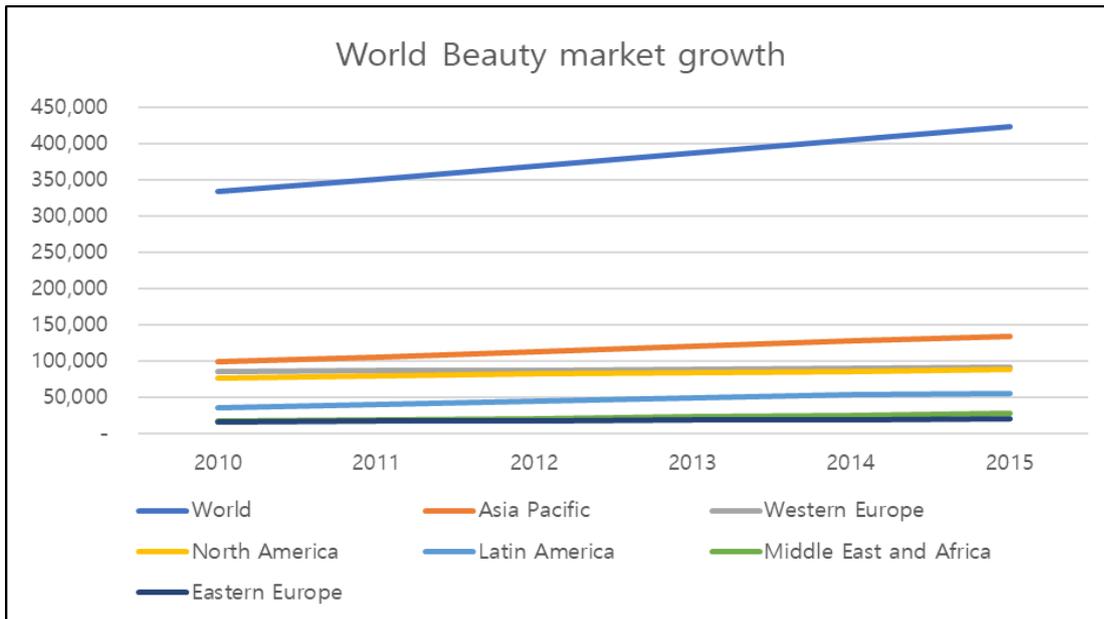
Unlike other distribution channels, starting a business with direct sales does not require much investment, and it is easy and fast to approach consumers. To start an initial business, it is necessary to build a store; this usually requires costs for advertising, interior and rent. It may take a long time to secure an adequate location, and shopping centers charge high rents. Many cosmetic brands fail, despite investing heavily in time and money. However, direct sales distribution is possible without a large investment, only through training salespeople. These advantages of direct selling as a distribution channel will be very appealing to businessmen who are willing to start a cosmetics

business. However, direct selling will not be best option for every region, as will be mentioned in the following chapter. It is therefore expected that this study will be helpful to companies planning to enter new markets that are not well known to them.

1.2 Evaluation of Direct Selling

The beauty and personal care market is growing very rapidly at an annual rate of between 4.6% and 5.2%, the average annual growth rate in the last five years averages 5%*.

Figure 1. World Beauty Market growth (2010-2015)



*Retail Value RSP US\$ mn

** Source: own elaboration with Euromonitor data

In the following, Figure 2 presents Asia Pacific, Western Europe and North America as the three biggest markets in overall revenues. The Latin American region is the fourth largest market, but it shows a remarkable annual average growth rate of 9%*. World second and third largest market is Western Europe and North America. The world's second and third largest markets are Western Europe and North America. The average growth in Western Europe is 1%* and in North America 3%*. The growth is not very dramatic, but the current volume is fairly high and is increasing modestly.

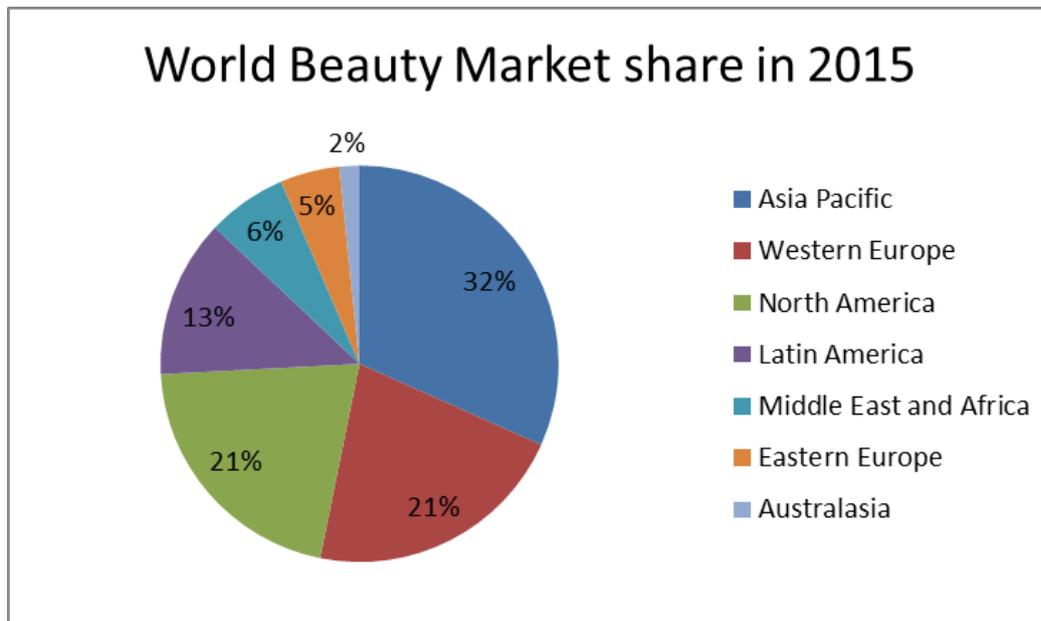
* CAGR 2010-2015

* CAGR 2010-2015

According to Groothedde, B., Ruijgrok, C., & Tavasszy, L. (2005), due to low logistics fees it has become easier to consume global goods, therefore, the growth of the cosmetic market is not limited to one region.

For example, the US-based Amway Corp is involved in many regions such as Asia Pacific, Australasia, Eastern Europe, Latin America, North America, and Western Europe. According to research by Euromonitor, 35% of the total sales of Amway Corp in 2015 were made in China; a much higher figure than the US sales of 11% for the same company. This shows how global the cosmetics market has become.

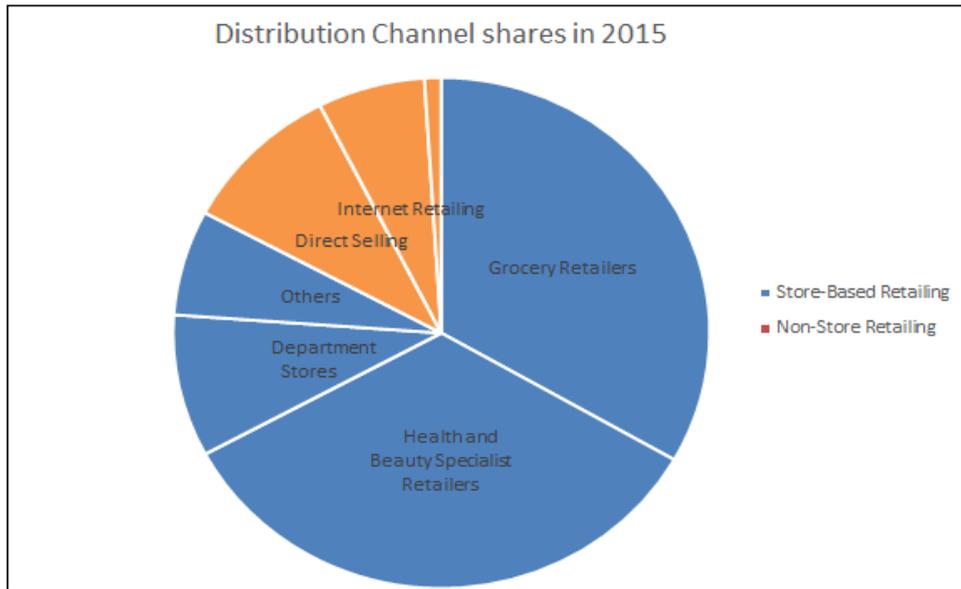
Figure 2. World Beauty Market share in 2015



* Source: own elaboration with Euromonitor data

Generally, store-based retailing is the major distribution channel for the beauty market, with more than 80% of the global shares. Among store-based retailing, grocery retailers, such as convenience stores and supermarkets, health and beauty specialist retailers, and drugstores and department stores occupy a large portion. However, although non-store retailing is still smaller than traditional retailing, it is growing on a global share, which includes internet retailing and direct selling.

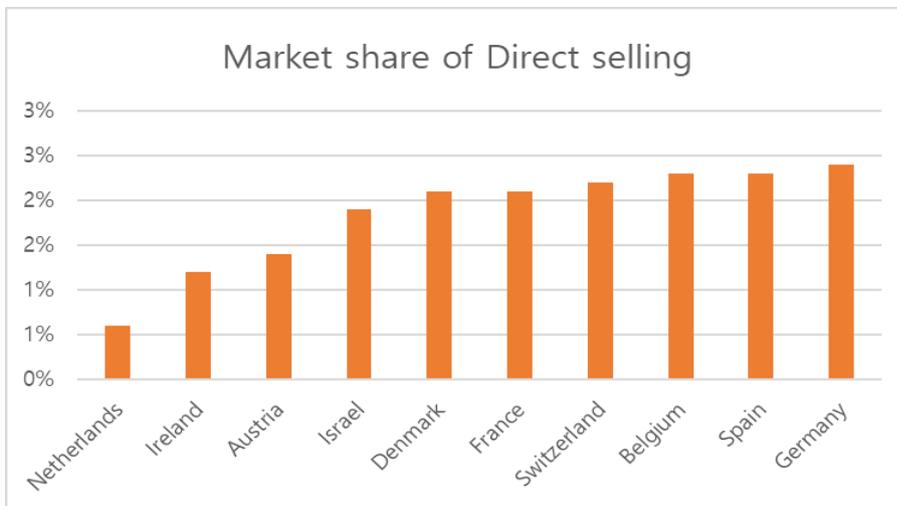
Figure 3. Distribution Channel shares in 2015



* Source: own elaboration with Euromonitor data

The market share for direct selling of cosmetics in the world's beauty market in 2015 was below 10%, which may not seem like a large amount compared to retail. However, when compared to the 9% of market share the department stores have, it is considered a large amount. When compared to the online market that is attracting attention worldwide, the direct selling market seems even larger, because internet retailing only occupies 6% of the market share. Currently, the world's beauty market is growing by 5% annually. Therefore, the market share of direct selling has the potential to grow larger. Furthermore, there are some countries, such as Bolivia, where the direct selling market share reaches almost 50%, while there are opposite examples that only have less than 3% of the market share, as demonstrated in Figure 4.

Figure 4. Market share of Direct selling in 2015



* Source: own elaboration with Euromonitor data

It is interesting that the market share of direct selling is very high in some countries and very low in others.

By reviewing the concept and marketing the strategy of direct selling, this paper will focus on the factors that affect the market share of direct selling. As mentioned in the introduction, the purpose of this study is to find out why direct selling is more active in specific regions. The study will review substantial studies and other data to analyze and find the possible indicators that could support this hypothesis. This work is also an opportunity to offer guidance to companies that might benefit from strategic advice on starting a business in a new region.

Chapter II . Literature Review

The present study focuses on the factors that influence the market share of direct selling in the cosmetic field. As mentioned previously, the cosmetic field has only recently become more attractive, therefore there are very few studies on the topic or on distribution channels, including direct selling. The exceptions are case studies about global cosmetic entrepreneurs, such as L'Oréal, Holt, D. B., Quelch, J. A., & Taylor, E. L. (2004), Kumar, S. (2005), Mary Kay, Coughlan, A., Coughlan, A., Goldman, E., & Goldman, E. (2017), and Avon, Moura, S. (2015). While the marketing strategy of the major players in the cosmetic market were to utilize television advertising, direct selling base its marketing strategy on the interaction among people. A study by Moura, S. (2015) examines how Avon's direct-to-home distribution model and family brand strategy gave the company a competitive advantage on the Brazilian cosmetics market. Other non-direct sales-based cosmetics companies had advantages through M&A (mergers and acquisitions) with well-known brands and strong relationships with the retailer (Kumar, S., 2005).

Some case studies observe examples from specific countries or regions. Some studies focused on a specific country, such as China, Luk, S. T., Fullgrabe, L., & Li, S. C. (1999), Ecuador, Masi de Casanova, E. (2011) and Romania, Bobalca, C. (2014) and others compared regional differences, Merrilees, B., & Miller, D. (1999). Luk, S. T., Fullgrabe, L., & Li, S. C. (1999) explain that direct selling has great advantages in China, because Chinese culture is group oriented and the form of direct selling is relationship marketing, which refers to successful relational exchange as a marketing activity, establishing, developing and maintaining a successful close relationship between salesperson and customers. Merrilees, B., & Miller, D. (1999) also find that cultural factors influence direct selling, by comparing two regions, East and West. The importance of trust, reciprocity, friendliness, and good personal relations is higher in the East than in the West, and this cultural background leads to a different response from each region toward direct selling.

Previous studies about direct selling have determined that cultural background and personal

relationships are very important factors that influence direct selling. There are more studies about group oriented interdependent culture, including collectivism, which do not describe direct selling but more broad research of customer tendencies. Zhang, Y., & Shrum, L. J. (2008) describe that peer presence affects interdependent consumers by providing greater motivation for impulsive consumption than independent consumers, while it decreases the impulsive consumption of independent consumers. Briley, D. A., Morris, M. W., & Simonson, I. (2000) explicate that cultural differences provide rules and guidance for making decisions, which explains the different types of choices.

Collectivism culture is well known as group oriented culture, and the share of the direct selling market in this culture tends to be large. This cultural feature is described by Dinn, A. A., & Caldwell-Harris, C. L. (2016) as culture relying on family and in-group and emphasizes relational interdependence. Finkelstein, M. A. (2012) also discusses that collectivists consider maintaining relationships with the group so important that sometimes they even spend something to improve their relationship within the group, even when the personal cost exceeds the rewards. According to Hong, J., & Chang, H. H. (2015), interdependent consumers tend to consider reasons while making decisions, but independent consumers rely strongly on feelings. This kind of cultural background makes direct selling very popular in some regions.

Although previous studies fully analyzed the culture and relationship marketing affecting direct selling in the relevant country through questionnaires, they were limited in comparing various countries that have strong market shares in direct selling. Since early discussions are case studies for particular countries or brands, the findings of cultural influence of direct selling in China in the study by Luk, S. T., Fullgrabe, L., & Li, S. C. (1999), and Brazil, Moura, S. (2015) is not comparable. Therefore, further studies that find other possible influencing factors are mentioned below.

The convenience of a business with low starting up costs is an advantage of direct selling. Direct selling does not need a fixed location to sell products to the customers. The company only needs to train its sales managers, who can visit and arrange meetings with customers anywhere. In other words, the salesperson can visit the customers' homes, workplaces and other possible places or

even invite customers somewhere, e.g. to a house party. According to a channel study by Euromonitor, in some countries people prefer purchasing by direct selling, as it helps busy consumers to avoid having to go shopping, and they can still study and compare the best options before buying a product. They feel easy and comfortable when the salesperson visits them and advises them about the various options for the products.

Free scheduling is another strength for both the salesperson and consumer of direct selling. DiMaggio, P., & Louch, H. (1998) discussed how this simple and easy method of business helps people, especially women, to join this business and let them maintain a work and life balance. The study shows how a one-parent family without enough social welfare support could survive by using flexible working hours. As an example, a salesperson from the direct selling company Yanbal in Latin America was interviewed. She insisted how she could earn enough money to live on without neglecting her children. In other words, depending on how the salesperson arrange their time, they can strategize on how to meet more potential customers.

One of the most important factors that boost direct selling is the reliability of the information that the salesperson delivers to the customers. According to Berger, J., & Iyengar, R. (2013), that is why consumers trust the consultation with a salesperson. There are many channels of communication; consumers are more likely to buy what they were recommended by word-of-mouth. Even though they can receive comments on social media such as twitter, it is much faster to see the immediate reaction while talking to a customer in-person. Furthermore, oral communication can serve to build ideas together while talking, and the salesperson could promptly recommend the best product to the consumer. DiMaggio, P., & Louch, H. (1998) also discussed this idea, by mentioning that people tend to trust more when they trade with their family and friends rather than with a stranger.

The strength of face-to-face marketing is another advantage of direct selling compared to alternative channel distribution. People tend to enjoy purchasing that involves oral consultation and repurchasing from their consultant. According to Kirmani, A., & Campbell, M. C. (2004), consumers are actively trying to achieve their goal by asking, bargaining and considering rewards with marketing agents such as salespeople. This supports the idea that the prompt reaction of the salesperson is

advantageous, rather than a written response such as an internet seller's comment. Herr, P. M., Kardes, F. R., & Kim, J. (1991) also support this idea that face-to-face communication is more persuasive than a written message. Frenzen, J. K., & Davis, H. L. (1990) explain that the likelihood of a purchase is affected by preexisting ties between buyers and sellers. This idea could attract customers to decide to buy from their direct selling vendor, who is a friend or family member. DiMaggio, P., & Louch, H. (1998) explain that repurchasing from the salesperson is very natural and easy because consumers feel even greater satisfaction when buying from close friends or family. The greater satisfaction that consumers feel at the first purchase, the more they are generally likely to repeat the purchase.

Although preceding studies are limited, due to the fact that the cosmetics market has only recently received attention, they suggest several possible parameters. However, to determine the common factors that influence the market share of direct sales, it is necessary to carry out a numerical analysis with specific figures. Therefore, the following chapter finds a possible factor that influences the market share of direct sales by using former studies and industrial reports.

Chapter III. Methodology

3.1 Introduction of Data Selection

Previous studies discussed the possible background to explain how it influenced direct selling. This study will focus more on various factors that affect the market share of direct selling. This study assumes that the alternative market channel purchase caused by credit transactions and internet use would have a negative effect to the market share of direct selling. On the other hand, strong kinship culture and high population density would have a positive effect.

As this paper attempts to explain influence by using statistical analysis, the possible factors are prepared as a data set from the World Bank and Euromonitor. The specific figures that represent each purpose are chosen for objective estimates.

3.2 Data Description and Sources

Table 1. Dependent Variable

Dependent Variable	Market share of Direct Selling
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The dependent variable of this study is the market share of direct selling in the cosmetics market in 59 countries in 2015. To demonstrate how this market share is calculated, four countries were chosen as a sample, namely the top selling countries in the cosmetic field. Except for China and Japan, every one of the top-ranking countries belongs to different region. Therefore, USA represents a sample of North America, China was chosen among two top Asia Pacific countries, China and Japan. Brazil is the fourth top-ranking country and represents Latin America. Germany is the fifth ranking country and the sample for Western Europe.

Table 2. Top leading countries in Beauty market in 2015

Geography	Amount
United States of America	81,549
China	50,605
Japan	32,773
Brazil	29,329
Germany	17,697

*Data Type : Retail Value RSP, Unit : USD million, 2015

** Source: own elaboration with Euromonitor data

As indicated in Table 2, a noticeable difference in the market share is observed in each country. Each country has its own characteristics of market distribution channels.

For example, in the United States, beauty specialist retailers, drugstores/parapharmacies and mass merchandizers have remarkable market shares with 14%, 15%, and 14% respectively. However,

in China, hypermarkets, department stores and internet retailing are the highest with 21%, 19%, 19%, while the market share of mass merchandizers is 0%. In Brazil, the market share of supermarkets and direct selling are leading with 22% and 26%, while internet retailing is very rare with 2%. The market share in Germany is very interesting; drugstores/parapharmacies have a matchless market share with 42%. Hypermarkets, department stores, direct selling and internet retailing are very low in Germany with 5%, 3%, 2%, and 4% respectively.

Table3. Outlet Type in United States of America, China, Brazil and Germany

Outlet Type	USA		China		Brazil		Germany			
	Actuals	% breakdown	Actuals	% breakdown	Actuals	% breakdown	Actuals	% breakdown		
Store-Based Retailing	Grocery Retailers	Convenience Stores	130	0%	727	1%	-	0%	118	1%
		Discounters	-	0%	-	0%	104	0%	1,488	8%
		Forecourt Retailers	84	0%	-	0%	12	0%	12	0%
		Hypermarkets	9,365	11%	10,780	21%	2,732	9%	935	5%
		Supermarkets	7,595	9%	3,608	7%	6,582	22%	1,230	7%
	Traditional Grocery Retailers	Food/drink/tobacco specialists	-	0%	-	0%	-	0%	-	0%
		Independent Small Grocers	277	0%	470	1%	303	1%	102	1%
		Other Grocery Retailers	319	0%	-	0%	1	0%	130	1%
		Apparel and Footwear Specialist Retailers	1,658	2%	-	0%	44	0%	10	0%
		Electronics and Appliance Specialist Retailers	83	0%	-	0%	-	0%	54	0%
Non-Grocery Specialist Retailers	Health and Beauty Specialist Retailers	Beauty Specialist Retailers	11,327	14%	4,823	10%	5,690	19%	2,730	15%
		Chemists/Pharmacies	177	0%	290	1%	89	0%	972	5%
		Drugstores/parapharmacies	11,908	15%	3,876	8%	4,975	17%	7,490	42%
		Other Health and Beauty Specialist retailers	15	0%	-	0%	3	0%	84	0%
		Home and Garden Specialist Retailers	-	0%	-	0%	3	0%	-	0%
	Other Non-Grocery Specialists	Outdoor Markets	76	0%	-	0%	141	0%	6	0%
		Other Beauty and Personal Care Non-Grocery Specialists	841	1%	861	2%	-	0%	258	1%
		Department Stores	8,059	10%	9,596	19%	-	0%	541	3%
		Mass Merchandisers	11,024	14%	-	0%	142	0%	-	0%
		Variety Stores	1,048	1%	-	0%	8	0%	156	1%
Mixed Retailers	Warehouse Clubs	2,229	3%	-	0%	137	0%	-	0%	
	Direct Selling	4,976	6%	5,761	11%	7,717	26%	431	2%	
	Homeshopping	1,603	2%	332	1%	2	0%	171	1%	
	Internet Retailing	6,457	8%	9,417	19%	581	2%	713	4%	
	Vending	-	0%	-	0%	-	0%	-	0%	
Non-Store Retailing	Hair Salons	2,297	3%	65	0%	66	0%	67	0%	
Non-retail channels		81,549	100%	50,605	100%	29,329	100%	17,697	100%	

*US\$ mn, Current Prices

Table 4. Independent Variable

Independent Variable	<p>Domestic credit provided by financial sector (% of GDP),</p> <p>Fixed telephone subscriptions (per 100 people),</p> <p>Individuals using the Internet (% of population),</p> <p>Fertility rate, total (births per woman),</p> <p>Population density (people per sq. km of land area),</p> <p>Forest area (% of land area), Urban population (% of total)</p>
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Independent variables are domestic credit provided by financial sector (% of GDP), fixed telephone subscriptions (per 100 people), individuals using the internet (% of population), fertility rate, total (births per woman), population density (people per sq. km of land area), forest area (% of land area), urban population (% of total).

To explain credit transactions, data called domestic credit provided by financial sector (% of GDP) is used. This indicator contains all credit to financial sectors except credit from the government. The financial sector includes finance and leasing companies, deposit money banks and all other corporations. According to the 2016 U.S. consumer payment study by TSYS, people who tend to use credit transactions prefer to pay in department stores and online shopping channels, which are alternative channels for direct selling.

Furthermore, Rajan, R. G., & Zingales, L. (1996) explain that domestic credit provided by the financial sector (% of GDP) indicator is related to the development of the industry. As the growth of a country and the development of its financial sector are positively related, it is possible that the countries with a high domestic credit have advanced financial systems. It is readily assumable that with this developed system, finance transactions in modern channels, such as drugstores, beauty specialist retailers and department stores are easier. For example, the top five countries in domestic credit, Japan, the United States, Denmark, Hong Kong and the Netherlands, have very high market shares in modern channels such as drugstores/parapharmacies with 25%, 15%, 28%, 19%, 39%

respectively of market shares.

Both data on fixed telephone subscriptions (per 100 people) and individuals using the internet (% of population) were prepared to support internet use. Chen, P. Y., Wu, S. Y., & Yoon, J. (2004) discuss that the internet plays a role as an important source of information to consumers. Furthermore, consumers feel it is easy to get information from the internet and to share their experience on it. Chen, P. Y., Wu, S. Y., & Yoon, J. (2004) also propose that the internet could weaken the power of word-of-mouth from acquaintances, which could impede the confidence in direct salespersons.

To support the idea of a strong kinship culture, the fertility rate (total births per woman) was selected. Many studies identify how kinship society influences the fertility rate. A study by Lorimer, F. (1956) explains that strong family relationships affect kinship culture and provide a powerful motivation for high fertility.

Population density was chosen to describe network and communication boosting, as Lin, N. (1999) discuss that population density increases social networks and relations. Klasen, S., & Nestmann, T. (2006) also support the idea by explaining that population density expedites communication and exchange and even increases the size of markets. As data on population density (people per sq. km of land area) are only measured by dividing midyear population by land area, the study added two more indicators. The population density indicators only exclude rivers and lakes, but the indicator forest area (% of land area), which excludes natural and artificial forests such as urban parks and fruit plantations, is added. The urban population indicator is also added because according to Klasen, S., & Nestmann, T. (2006), population density and urbanization are highly related.

Chapter IV. Empirical Analysis

4.1 Evaluation of Regression Variables

The regression equation (1) contains every variable selected according to the reasons mentioned in the part on data description and sources of methodology.

The dependent variable is the market share of direct selling from 59 countries in 2015, and the independent variables are domestic credit provided by the financial sector (% of GDP), fixed telephone subscriptions (per 100 people), individuals using the internet (% of population), fertility rate, (total births per woman), population density (people per sq. km of land area), forest area (% of land area), and urban population (% of total).

The equation of multiple regressions with every variable is presented below.

Equation (1)

$$Y = \beta_0 + \beta_1 X_{\text{credit}} + \beta_2 X_{\text{telephone}} + \beta_3 X_{\text{internet}} + \beta_4 X_{\text{fertility}} + \beta_5 X_{\text{population}} + \beta_6 X_{\text{urban}} + \beta_7 X_{\text{forest}}$$

Observing the multiple regression result of equation (1), R squared that explains the regression model's goodness-of-fit seems significant, while there are some points to review. There is one variable that seems statistically insignificant, and there are some variables that are considered to be correlated with each other.

By testing the correlation between each variable, the study found two variables, Fixed telephone subscriptions (per 100 people) and individuals using the internet (% of population) have a fairly high correlation, namely 0.689. According to Cohen, J. (1992), effect sizes are defined as small, $d = 0.2$, medium, $d = 0.5$, and large, $d = 0.8$. Before the final regression testing, correlations were tested by removing the variables with large correlations.

Table 5. Correlations between the Seven Main Variables (N=59)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1. Domestic credit	1						
2. Fixed telephone subscriptions	.531**	1					
3. Individuals using the Internet	.476**	.689**	1				
4. Fertility rate, total	.369**	.371**	.413**	1			
5. Population density	0.197	.268*	0.163	-0.245	1		
6. Urban population	.382**	.456**	.469**	-0.004	.357**	1	
7. Forest area	-0.07	-0.22	-0.147	-0.043	-0.254	-0.13	1

Note

*significant at 10%., **significant at 5%, ***significant at 1%

However, testing correlations is a possible method for assuming multicollinearity, but not satisfactory in detecting multicollinearity. That is why the study also used a measure of multicollinearity called the variance inflation factor (VIF) to test multicollinearity. If $VIF \geq 10$ or $Tol \leq 0.1$ (the tolerance is simply the inverse of the VIF), then there is a strong indication of a collinearity problem. According to the result displayed in Table 2, there is no multicollinearity among the dependent variables.

Table 6. Equation (1) and Variance Inflation Factor

Dependent Variable:	Direct selling rate	
	(1)	VIF
Domestic credit provided by financial sector (% of GDP)	-0.035**	1.56
Fixed telephone subscriptions (per 100 people)	-0.184**	2.29
Individuals using the Internet (% of population)	-0.22***	2.31
Fertility rate, total (births per woman)	4.511**	1.58
Population density (people per sq. km of land area)	0	1.36
Urban population (% of total)	0.199***	1.75
Forest area (% of land area)	0.151***	1.15
R2	0.665	
Observations	59	

Note

*significant at 10%, **significant at 5%, ***significant at 1%

4.2 Regression

The study will test the hypothesis with the regression equation, as multicollinearity was tested previously.

Among the two variables that had a fairly high correlation, the test will remove 'fixed telephone subscriptions (per 100 people)'. As two variables were chosen to describe the use of the internet, the influence factor 'individuals using the internet (% of population)', is considered to provide the strongest support for the idea.

Table 7. Equation (1), (2) and (3)

Dependent Variable:	Direct selling rate		
	(1)	(2)	(3)
Domestic credit	-0.035** (-2.215)	-0.043** (-2.752)	-0.043*** (-2.776)
Fixed telephone subscriptions	-0.184** (-2.112)		
Individuals using the Internet	-0.22*** (-2.999)	-0.293*** (-4.365)	-0.291*** (-4.454)
Fertility rate, total	4.511** (1.94)	5.044*** (2.113)	5.154** (2.301)
Population density	0 (0.009)	0 (-0.144)	
Urban population	0.199*** (2.786)	0.178** (2.44)	0.174** (2.603)
Forest area	0.151*** (2.933)	0.168*** (3.197)	0.17*** (3.392)
R2	0.665	0.636	0.636
Observations	59	59	59

Note

Values in parentheses are t-statistics.

*significant at 10%., **significant at 5%, ***significant at 1%

The result of this equation is shown in the chart, Equation (2). With all the variables selected for Equation (2) the study used backward elimination for the selection of variables. The backward elimination starts with the full model and keeps deleting predictors with the smallest significance until there are no more possible variables left. In Equation (2), backward elimination reduced the influence factor 'urban population (% of total).

4.3 Result

The optimal structure of a multiple linear regression model for this study would be

$$Y = \beta_0 + \beta_1 X_{\text{credit}} + \beta_2 X_{\text{internet}} + \beta_3 X_{\text{fertility}} + \beta_4 X_{\text{urban}} + \beta_5 X_{\text{forest}}$$

Y is the dependent variable 'market share of direct selling from 59 countries in 2015.'

β_1 is the independent variable 'domestic credit provided by financial sector (% of GDP).' β_2 is the independent variable 'individuals using the internet (% of population).' β_3 is 'fertility rate, (total births per woman)', β_4 is 'urban population (% of total)' and β_5 is 'forest area (% of land area).'

To determine whether the selected variables are useful predictors in this model, the study will test the hypothesis below:

$$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$$

$$H_1 : \text{at least one } \beta_i \neq 0 \text{ for } i = 1, \dots, 5.$$

In the result of the multiple regression, p-value is calculated as the probability $p < .05$.

Independent variable is related to at least one or more of the dependent variables 'domestic credit provided by financial sector (% of GDP)', 'individuals using the internet (% of population)', 'fertility rate, (total births per woman)', 'urban population (% of total)' and 'forest area (% of land area).'

Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted.

Table 8. Equation (3), Regression coefficient and Variance Inflation Factor

Dependent Variable:	Regression coefficient (β)	Standardized regression coefficient(β)	VIF
Domestic credit provided by financial sector (% of GDP)	-0.043***	-0.278***	1.461
Individuals using the Internet (% of population)	-0.291***	-0.488***	1.749
Fertility rate, total (births per woman)	5.154**	0.226**	1.397
Urban population (% of total)	0.174**	0.261**	1.466
Forest area (% of land area)	0.17***	0.287***	1.038
R2	0.636		
Adj R2	0.601		
Observations	59		

Note

*significant at 10%., **significant at 5%, ***significant at 1%

The study compares the difference between R squared and adjusted R squared. These two statistical measures are well known as explanations and coefficients of determination. R squared is 0.636 and adjusted R 0.601. If the difference between them is larger than 20%, the regression model has a serious problem. However, the gap between R squared and adjusted R squared of this model is only 3.5%, so this model is approved.

Comparing β is not sufficient to measure the relative effects between the dependent and the independent variable, due to different scales used for each variable. Therefore, the standardized regression coefficient (β) is used to compare the relative importance of each coefficient in a regression model.

By comparing the standardized regression coefficient (β), the study found that the dependent variable ‘individuals using the internet (% of population)’, has most relative importance for the independent variable ‘direct selling market share rate’, while other variables produce similar effects. The independent variables which are the alternative distribution channel, the domestic credit provided by financial sector (% of GDP), and kinship culture, the fertility rate, the total (births per woman), the urban population (% of total) and the forest area (% of land area) have a similar effect to the

dependent variable, market share of direct selling.

When the variables ‘domestic credit provided by financial sector (% of GDP)’ and ‘individuals using the internet (% of population)’ increase as the market share of direct selling decreases, a negative correlation is indicated. A positive correlation is indicated by fertility rate (total births per woman), urban population (% of total) and forest area (% of land area). Urban population (% of total) and forest area (% of land area) are supplements of population density as explained above chapter 3. Data Description and Sources.

In a country with a high credit sector and alternative channels such as department stores, online buying will be more common, which consequently leads to low direct selling. Thus, domestic credit provided by the financial sector (% of GDP) has a negative correlation with the market share of direct selling. However, the numerical value is not high for the following reasons.

1. Alternative channels are not perfect substitutes for direct selling.
2. Increases in credit transactions may draw in direct selling customers to purchase on credit.

As the internet market expands, other distribution channels may lose their market shares, including direct selling. The variable ‘individuals using the internet (% of population)’ has the largest correlation of all variables, indicating the negative ones. As mentioned earlier, internet market expansion is related to the increase of credit transactions. Since internet purchases are based on credit transactions, the correlation with ‘individuals using the internet (% of population)’ is higher than ‘domestic credit provided by financial sector (% of GDP)’. Furthermore, internet users who are familiar with visual and fast information may think that face-to-face information is inaccurate and slow. A decline in the confidence in information from salespeople will weaken the direct sales market. Therefore, the variable ‘individuals using the internet (% of population)’ has the greatest negative correlation in this multiple regression analysis.

As mentioned earlier, fertility rate is strongly related to culture. A high fertility rate means that there is a high level of personal ties based on culture that emphasize the personal role as a

member of a community. In this culture, direct selling is popular because it is based on this personal relationship. The correlation of 'fertility rate, (total births per woman)' is not overwhelmingly high in this regression model, because the variable describes culture, but it is not a perfect representation. However, the study used this variable as an important indicator due its special relation to sales in direct selling, and former studies' findings on the effects of direct sales and culture.

Urban population (% of total) and forest area (% of land area) are complementary factors of population density, which has a positive correlation with the market share of direct selling. When the population density is high, face-to-face relations and bonds are strong. In regions with strong networking, direct selling can use face-to-face interaction to recommend items in real time, which can be directly linked to purchasing.

Chapter V . Conclusions

5.1 Conclusions

Similar to many preceding studies that considered cultural characteristics as important factors that influence direct selling, this study also considers it a significant factor. However, some aspects of the approach of this study and its findings differ to previous studies. Previous studies mainly utilized surveys from salespeople or consumers in some countries to explain the relationship between cultural characteristics and direct selling. In this study, statistic data, such as market share of direct selling, internet use, and others are used to compare the factors that influence the market share of direct selling, using a larger sample of countries. With this approach the study could observe a new influencing factor, which preceding studies did not address in-depth, namely how the internet weakens the power of relationship marketing.

As discussed earlier, customers are becoming aware of new and easy ways of finding information from the internet. It is not important to the customers whether that information is objective and true or not. In other words, these consumers would trust information from the internet more than from their friends or family. The result of the study shows that losing trust in face-to-face consulting has an even larger impact on this network based selling than the emergence of alternative channels. Information from the internet is acquired in a different way than other information. The user gains knowledge by means of photographs or texts. In other words, people who use internet is likely to purchase goods after searching among plenty of raw data rather than asking personally. Since the way of receiving information is different, users who are familiar with internet information may feel that direct consultations by salespersons are slow and inaccurate. That is to say, since the era started in which information can be compared at a glance, information from a direct salesperson may considered

too limited and too slow.

It is still early to conclude that relational marketing will soon be reduced due to the other factors of influence observed in the study. Both ‘urban population (% of total)’, ‘forest area (% of land area)’, which were chosen to complement population density, but also describe the network and communication boosting of a society, are also strong influencing factors for market share. As mentioned in the previous chapter, with a high ratio of urban population, people are likely to live in crowded locations with better transportation or opportunities for education. Compared to countries with more open spaces, people have less room to live, which makes people to move to convenient locations such as big cities. The increase in population density in urban areas enlarges the network, which could expand relational marketing. Since direct selling requires sellers to invest time to move and to meet the customers, this urban density would help direct selling. Furthermore, as population density also increases the total market size, the direct selling market would also grow larger.

The finding from this study also support the idea that direct selling is strong in a culture that relies on family and in-group and emphasizes relational interdependence. Personal relations are very important in this culture. For example, on Chinese New Year’s Day, many Chinese people move to see their family, spend several days traveling and huge sums of money to buy presents for their relatives. People say that the community based traditional culture will decline, and that soon a faster, modernized and individualized culture will take over. As society evolves, people and their culture have changed. However, taking care of one’s own has always been a priority for mankind. Especially in China, where people are very family and friend oriented.

Alternative channels are not strong as expected, because they are not a perfect replacement of direct selling. There are many types of cosmetic shops with their own advantages. Beauty specialist retailers offers almost every multi brand in one place. Customers can compare products and test with displayed samples without any interruption by a salesperson. In parapharmacies, consumers can receive consultation from very professional pharmacists. Although cosmetics are not medicine, they feel a similar level of confidence. Internet retailing and home-shopping is the easiest and most convenient way of shopping. Due to the strong competition, prices are low and the products are even

delivered home. Thus, people tend to prefer using channels that they are accustomed to, but they are still open to using other channels.

The factors alternative market channel, new way of learning information, kinship culture and network chosen for the study would be meaningful indicators to measure the market of direct selling numerically. Therefore, the measurements suggested in this study could be helpful for companies that plan to start a business, especially if they are considering to join a new market and have insufficient information to decide whether direct selling would be proper business model in an unknown field.

For further study, a field study for each region or country is expected as this study is more focused on statistical data and outcomes that influence the total market share of direct selling. Since Latin America is one of the biggest markets for direct selling, further research would find more detailed information about this region.

5.2 Limitations and Implications

Although this study has reached its aims, there are still some limitations. First, since the research was conducted with data from various countries, the comparative analysis according to cultural characteristics is weak. It is not enough for the researcher to observe regional or cultural similarity, because in this model, each country is individually used without grouping it. It would be better if similarities between culturally similar countries are defined, and they are combined in separate groups for cluster analysis. Second, it is necessary to deduce the characteristics of countries with a high market share of direct selling, such as Latin America, by inductive reasoning. The study only finds correlations between various data and the market share of direct selling by using regression analysis. Extracting common factors that are related to direct selling from the countries with a high market share will be helpful for enterprises.

The study was conducted by extracting the market share of direct selling data from the cosmetics market only. Despite several limitations, the study could possibly act as a barometer when relevant companies enter a new market and need to select their target marketing tools. Furthermore, the study will also be utilized in many other roles, due to the reasons stated below.

First, because it is conducted with the correlation of direct selling based on data extracted from many countries, hence there is no bias and the data are objective. In addition, in order to make the result more objective, the multicollinearity of each factor was examined before constructing the final regression model. Therefore, this study can be used as initial support to review the possibility of direct selling in advance, before firms explore the cultural and social characteristics of target countries in more depth.

Second, the results of this study are derived by using independent variables of different characteristics in multiple regression analysis. In other words, by reviewing the variable data used for the regression analysis, it is possible to know the characteristics of a country. For example, a country with a high market share in direct selling may have less access to the internet and close relational ties

with a high population density for geographical reasons. This study can be used not only to analyze the market share of direct selling, but also as information material to enhance the understanding of a country.

Third, it is possible to forecast the future of direct selling. The correlation between the internet and the market share of direct selling is larger than other variables. In other words, the larger the internet market, the smaller the direct selling market. Internet information is fast, and enables to simultaneously compare many different brands and products. Face-to-face contact is slower, and it is difficult to compare the products offered by means of direct selling with other brands' products. This study assumes a negative correlation between the market share of direct selling and two indicators, i.e. learning from the internet and alternative channels, such as department store. Moreover, it also suggests data based on social network and human relations as a positive correlation.

In some regions, the ties between the members are still strong, which implies that the direct selling market will not disappear easily. The advantage of the direct selling market is that it can provide customized products for each individual. In addition, it is possible to assist customers who have difficulties in choosing proper products quickly from a multitude of information. Especially in the cosmetics market, direct selling can play a big role. Cosmetics can work differently, depending on the characteristics of each individual. And because cosmetics are not too bulky to carry, the salesperson can present a variety of products to customers.

In addition, the cosmetics company can learn from complaints of direct selling customers. Complaints after purchasing from stores or internet channels are not taken as seriously as those made to a direct selling channel. For instance, the customers may complain because they misunderstood the product, or the product can be damaged in transit. However, as a close relationship and much conversation between the salesperson and the customer are the principal concept of direct selling, complaints can lead to improvements.

This means that the communication channel between seller and buyer is slow, but reliable.

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Online sources

World bank, world Development Indicators

Euromonitor

2016 US Consumer Payment Study - Tsys

Appendix

World Beauty Market share in 2015

Geographies	2015	
	Retail Value RSP	% breakdown
World	423,626.50	100%
Asia Pacific	134,289.40	32%
Western Europe	90,963.80	21%
North America	88,905.70	21%
Latin America	54,657.40	13%
Middle East and Africa	27,499.60	6%
Eastern Europe	20,368.20	5%
Australasia	6,942.30	2%

*US\$ mn, Current Prices

Amway Company share in 2015

Geographies	2015	
	Retail Value RSP	% breakdown
World	2,828.10	100%
China	977.20	35%
Japan	343.30	12%
USA	319.20	11%
Thailand	253.10	9%

*US\$ mn, Current Prices

World Beauty Market Revenue and CAGR

Geographies	2010	2011	2012	2013	2014	2015	CAGR
World	333,728	350,862	368,998	386,822	404,923	423,627	5%
Asia Pacific	98,782	105,350	112,388	119,728	126,944	134,289	6%
Western Europe	84,985	86,144	87,153	88,076	89,409	90,964	1%
North America	75,585	79,000	81,723	83,652	85,602	88,906	3%
Latin America	35,769	39,192	43,654	48,077	52,578	54,657	9%
Middle East and Africa	16,637	18,286	20,383	22,882	25,083	27,500	11%
Eastern Europe	15,983	16,795	17,470	18,006	18,690	20,368	5%
Australasia	5,987	6,095	6,226	6,401	6,618	6,942	3%

*US\$ mm, Current Prices

Outlet Type in World

Outlet Type		Actuals	World % breakdown	
Store-Based Retailing	Grocery Retailers	Convenience Stores	7,423	2%
		Discounters	7,038	2%
		Forecourt Retailers	363	0%
		Hypermarkets	49,194	11%
		Supermarkets	58,879	13%
	Traditional Grocery Retailers	Food/drink/tobacco specialists	6	0%
		Independent Small Grocers	17,837	4%
		Other Grocery Retailers	3,435	1%
		Apparel and Footwear Specialist Retailers	2,302	1%
		Electronics and Appliance Specialist Retailers	672	0%
Non-Store Retailing	Health and Beauty Specialist Retailers	Beauty Specialist Retailers	64,369	15%
		Chemists/Pharmacies	21,981	5%
		Drugstores/parapharmacies	58,902	13%
		Other Health and Beauty Specialist retailers	1,428	0%
		Home and Garden Specialist Retailers	485	0%
	Non-Grocery Specialists	Homewares and Home Furnishing Stores	485	0%
		Outdoor Markets	2,633	1%
		Other Beauty and Personal Care Non-Grocery Specialists	3,856	1%
		Department Stores	38,829	9%
		Mass Merchandisers	13,145	3%
Mixed Retailers	Variety Stores	3,058	1%	
	Warehouse Clubs	2,495	1%	
	Direct Selling	42,219	10%	
	Homeshopping	4,531	1%	
	Internet Retailing	27,793	6%	
Non-retail channels	Vending	4	0%	
Total		4,784	1%	
		437,662	100%	

*US\$ mn., Current Prices

국문 초록

김혜림

학과 및 전공: 국제학과 국제지역학

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본 연구에서는 화장품 방문판매에 영향을 미치는 요인들을 추출하여 가설 모델을 세우고, 각 독립변수가 종속 변수인 화장품 방문판매에 미치는 효과를 분석하였다. 가설 모델은 지표 데이터(indicator data)를 선정하여 관련 선행 연구를 참고하여 설계하였다. 지표 데이터 및 시장 점유율은 화장품 시장에서 방문판매 시장 점유율이 높은 국가들을 포함(페루, 멕시코, 아르헨티나 등) 하여 총 59개국 자료를 World Bank 및 Euromonitor에서 수집하였다. 선행 연구에서는 방문 판매에 미치는 문화적인 영향을 판매사원 및 잠재적 소비자들에게 자가측정 변수를 이용해 설명하였다.

기존 연구에서는 1개 국가 또는 2개 국가를 대상으로 설문 조사를 진행하여 문화를 중심으로 연구했다면, 본 연구에서는 기존 연구에서는 해당 지역의 문화적인 특성과 방문판매와의 상관관계를 주로 분석하였다면 본 연구에서는 다중회귀분석식을 통해 다양한 변수를 분석하고자 하였다. 이런 방식대로 수집한 변수들을 회귀 분석을 통해 통계적으로 의미 없는 자료들을 제거하는 방식으로 모델을 제작하여 데이터의 신뢰성을 확보하였다. 그리고 선별한 데이터를 기반으로 회귀분석 모델을 통해 방문판매 시장 점유율에 데이터가 미치는 영향을 평가하였다.

방관이 높은 지역의 데이터 특성에 대해 나열하자면, 첫 번째 문화적으로는 화장품 방문판매가 활발한 곳의 문화는 개인의 만족보다도 공동체 내에서 관계를 유지하는 것이 더 중요한 특징을 가지고 있다. 두 번째 지리적으로는 인구 밀도가 높은 특징을 가지고 있는 곳이 화장품 방문판매에 유리하다. 세 번째 인터넷 환경이 발달한 지역에서는 화장품 방문판매가 낮은 특성을 보인다.

본 연구의 분석 결과 문화, 사회적인 환경, 인터넷 환경으로 대변되는 정보적 특성 및 대체 유통 채널 등이 방문판매 시장 점유율에 영향을 미친다는 것을 증명하였다.

화장품 시장이 최근 괄목한 만한 성장을 보이고 있으며, 방문판매의 화장품 시장 점유율이 상당하다는 점을 고려한다면 본 연구가 기업들의 신규 시장 진출에 도움이 될 것이다.

주요어: 방문판매, 시장 점유율, 화장품 시장, 요인 분석

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