Beauty Product Opportunities to Japan, South Korea and the Philippines

Thursday 19 July 2018
HOW TO ASK QUESTIONS

1. Select “Chat” function

2. Select “Host & Presenter”

3. Type your question here

4. Press ‘Send’
AGENDA

- Introduction

- Dates and countries participating in our webinar series:
  - Tuesday 17 July: India, Myanmar and Thailand
  - Wednesday 18 July: Indonesia, Malaysia and Vietnam
  - Thursday 19 July: Japan, South Korea and the Philippines
  - Friday 20 July: China, Hong Kong and Taiwan


- International Trade Shows

- Q & A
MARKET SNAPSHOT
JAPAN

AMANE KANEKO
BUSINESS DEVELOPMENT MANAGER
AUSTRADE – TOKYO
MARKET OVERVIEW

Japan is the world’s third largest cosmetics market. Although Japanese demographics are shrinking, an upturn in consumer confidence and demand from incoming tourists has pushed up the market size 2.9% year-on-year to approximately A$29 bil for the year ended Mar 2017.

- Japan is the world’s third largest e-commerce market, and grew 8.7% in 2016.
- E-commerce is the fastest growing channel in beauty and personal care.
- Mobile phone transactions made up 31.9% of total e-commerce sales in 2016, or approximately A$32 bil.
- Cosmetics for sensitive skin, as well as natural/organic cosmetics saw strong growth.
Make-up and skin care products saw growth of 4.4% year-on-year to A$6.4b and 3.0% to A$13.5b, respectively. In the make-up category, liquid foundation in cushion format was popular; beauty counters at department stores have started to offer services in several languages, boosting sales of skin care products. Products for users with sensitive skin and natural/organic cosmetics enjoyed a boost in sales.

**Organic/natural cosmetics**
- Sales of organics/natural cosmetics rose 5.3% year-on-year to A$1.3b.
- Brands in this segment becoming more functional.
- Drawing in interest from users previously not interested in organic/natural cosmetics.

**Skin care**
- Anti-aging function
- Whitening function
- Hydrating function

**Australian Made**
- Australian cosmetics are expected to be made in Australia
- The clean and green image of Australia also equates to the expectation of the use of Australian cosmetics ingredients.
- Organic cosmetics are expected to have certification from an internationally known organic accreditation organisation.
CHALLENGES AND ISSUES

- **Competition from domestic manufacturers**
  - Japan has approximately 2500 cosmetics manufacturers, of which Shiseido and Kao rank 7th and 9th respectively amongst global cosmetics companies (BEAUTY PACKAGING, Top 20 Beauty Companies).

- **Marketing**
  - Australia has a good image – clean and green. However, knowledge of Australian cosmetic brands is limited
  - Digital marketing is expensive; be prepared to support your importer

- **Product Pricing**
  - Recommended retail price (RRP) in Japan is generally 6.5 times the ex-factory price. RRP in Japan should be within 1.2–1.3 times the RRP in Australia.
The Japanese Ministry of Health, Labour and Welfare require companies that import, wholesale, retail and market cosmetics for business purposes to obtain a manufacturer/importer and distributor license under the Japanese Pharmaceuticals Affairs Law.

**Registration Process**
- Registration must be conducted by the local subsidiary of the brand or importer
- Two kinds of cosmetics = (general) cosmetics and medicated cosmetics
- Exporters must provide complete ingredient list and manufacturing process diagram to the importer
- Positive (preservatives, UV absorbents, tar colours) and negative list
- Registration application – usually within one working week
- All legal papers must be filed in Japanese

**Cost of Registration**
- JPY 37,300 (approx. A$440) per product
What to do

- Use third-party evidence to boost credibility of the brand/product
- Use statistics, market share to talk about the brand/product
- Explain brand/product positioning within Australia, other major markets
- Talk about credentials, celebrity endorsements
- Be polite – Ask what they are looking for

What not to do

- Claim/boast that your product is the best unless you have third party evidence
Japan is the world’s third largest e-commerce market, and grew 8.7% in 2016.

E-Commerce is the fastest growing channel in beauty and personal care.

Mobile phone transactions made up 31.9% of total e-commerce sales in 2016, or approximately A$32 bil.

- E-commerce in Japan is platform based – not company based
- Major platforms are: Amazon Japan, Rakuten, Yahoo! Shopping
- Having a ecommerce service provider is a must => website localization, customer support, registering on platform
- Japanese regulations prohibit cosmetic brands without importers to utilize local warehousing => not able to provide lower delivery costs
- Able to send product directly to consumer from Australia with delivery cost of about AuD20 per package
- Digital marketing also a must; companies must have budget to promote

Popular social media platforms
- LINE,
- Instagram,
- Twitter,
- Facebook
The Japan–Australia Economic Partnership Agreement (JAEPA) provides valuable access for Australia's exporters and will support further two-way investment. JAEPA entered into force in January 2015.

- As shown in the table below, the majority of Australian skincare, cosmetic and beauty products have zero import duties.

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Source: DFAT FTA Portal
Source: Department of Foreign Affairs and Trade (DFAT) – Japan-Australia Economic Partnership Agreement (JAEPA)
THANK YOU!
MARKET SNAPSHOT
KOREA

DAHEE JULIA KIM
BUSINESS DEVELOPMENT MANAGER
AUSTRADE – SEOUL
MARKET OVERVIEW

- The 8th largest in the world
- One of the fastest growing markets with 17.9% growth in the last 5 years (2013-2017)
- Major retail outlets: health and beauty specialist retailers (35.8%), department stores (15.5%), hypermarkets (12.3%), supermarkets (3.6%), pharmacies/drugstores (11.1%), home shopping (6.7%), Internet retailing (11%), and others (0.7%) (multi-stores, hair salons and home and living stores)
- General pricing advice: Slightly higher than local prices in the country of origin (eg. Australia). Otherwise consumer > cross-border shopping if there are large price differences
The affordable luxury trends supports the growth of premium fragrance

Deodorants > Imported brands are popular. Deodorant spray (17%)

Scent is the most important factor for bath and shower

Ingredients are not currently as important in hair care. Conditioners & treatments in demand due to the popularity of dyeing and beaching hair

New distributional channel for premium cosmetics: Shinsegae Group opened Chicor for premium beauty retailing concept that could rival Sephora.

Virul marketing and social media exposure are crucial
Especially for colour cosmetics with the least brand royalty

Some brands focus heavily on duty-free

Retailers actively introduce new and exclusive brands
OPPORTUNITIES

- The level of ultra-fine dust > Anti-pollution cosmetics
- The derma-cosmetics (15% growth)
- Colour cosmetics
- Premium unisex fragrances (eg. Byredo, Jo Malone, Penhaligon's)
- Sun care for babies and children
- Mass handcare & lipcare
- Intimate washes & Bath additives (eg. Bath salts)
Strong domestic manufacturers
3 major companies hold a 62.3% market share in 2017 (Amore Pacific, LG Households and Health, Aekyung)

Issues: frequent massive sales promotion due to declining sales from Chinese tourists, active new products development etc

Baby Skincare VS Derma Cosmetics

Men’s grooming loses growth momentum
Men uses unisex skincare rather than men’s grooming brands

CHALLENGES
- EU and US brands are perceived more premium and cosmeceutical advancement. Australian products are well-received for its clean, honest and natural image. Home to natural and organic ingredients.

- Packaging trends are different. E.g. font, font colours, pumps, bottle designs etc.
Cosmetics in Korea fall under two categories:

- **Functional cosmetics**: whitening or brightening, anti-wrinkle, anti-acne products, sunscreens, tanning products, hair dye products and hair loss prevention cosmetics. MFDS reviews only functional cosmetics for pre-market approval.
  - Registration process: 2 to 5 months
  - The examination fee: KRW189,000 (approx. A$225 dollars) per item

- **Regular cosmetics**: the Korea Pharmaceutical Traders Association (KPTA) to review and certify import permission applications submitted by Korean importers.
  - Registration process: about 3-4 working days
  - The examination fee: KRW5,000 (approx. A$6) for 3 items and KRW800 (approx. A$1) for each additional item

Department responsible for registration: The Ministry of Food & Drug Safety (MFDS)
# KOREA-AUSTRALIA FREE TRADE AGREEMENT (KAFTA)

**KOREA-AUSTRALIA FREE TRADE AGREEMENT**

Signed on 8 April 2014

Implemented on 12 December 2014

2018 is the fifth year of KAFTA implementation

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Source: DFAT Free Trade Agreement Portal
1. **Formal but friendly Prompt responses**
   You may find it helpful to send written materials - brochures, marketing materials, etc. in writing. Speak in clear, basic English.

2. **Responsive with prompt responses**
   Korea is a country where things can happen extremely quickly. A week without communication is interpreted as lack of interest.

3. **Support for local marketing activities**
   Korean customers expect detailed product information incl. pictures, descriptions, reviews and a brand story. Samples are common and expected by Korean consumers.

4. **Support for localization**
   Layout and design eg. plastic vinyl wrapping, box packaging. Fast changing trends for packaging, font design, font colours.
E-commerce in Korea: A Guide for Australian Business can be downloaded from the Austrade website and features case studies of Australian companies which have succeeded using this innovative pathway to the Korean market.

**Major online shopping channels in Korea**

<table>
<thead>
<tr>
<th>Open Market (e.g. ebay)</th>
<th>Social Commerce Shopping</th>
<th>Department Store Websites</th>
<th>Hypermarket Websites</th>
<th>TV Home Shopping</th>
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</table>
Korea - the highest number of monthly active social media users in the Asia Pacific

84% of population: active social media users

Social Media Channels you should consider: Kakaotalk, YouTube & Instagram

KakaoTalk – 35.3M users (6.4M Facebook)
To target young consumers aged 20s and 30s: Instagram promotion is a must, especially mums with young children

The most popular social platform: YouTube (74% penetration rate).

For mobile shopping: Female in 30s are most active 78% of Female, 75.4% of 30s (20s 66%)
THANK YOU!
MARKET SNAPSHOT
PHILIPPINES

TINA SENDIN
BUSINESS DEVELOPMENT MANAGER
AUSTRADE – MANILA
MARKET OVERVIEW

Key growth drivers:
- Overseas Filipino Workers (OFW) remittances
- Business Process Outsourcing (BPO)/call center industry
- Domestic consumption that grows at 6% per annum comprising 75% of the country’s GDP

Demographic window

Premiumization stage – a market of HENRY’s

2017 was a good year for retailing in the Philippines!
TRENDS

Beauty Category is seen to be “growing exponentially”

- Colour cosmetics
- Sun care
- Premium beauty and personal care
- Skin care

Expected to grow in the next 5 years:

- Colour cosmetics
- Depilatories
- Premium Beauty and Personal Care
- Deodorants
- Skin Care
- Men’s grooming

Sales of Beauty and Personal Care
Retail Value RSP - PHP million - Current - 2003-2022

182,816
OPPORTUNITIES

Heavy American influence

Regulations are quite open

Proximity to Australia

Public consciousness of health & well-being

Retail expansion and a dynamic retail environment
CHALLENGES AND ISSUES

- Natural and organic terms used loosely

- Logistics – PH is an archipelago

- Force majeure

- Highly competitive, limited retailers

- Heavy American influence
Food and Drug Administration (FDA)

Government body responsible for product regulation in the Philippines

COSMETIC PRODUCT NOTIFICATION

- ASEAN Cosmetics Association - ASEAN Cosmetic Directive
- Cosmetics Notification Application

Timeline

- 6 months, provided all requirements are completed

Labelling

- No need for translation to local language
- Packaging in Filipino translates to “mass product”
### Product Schedule of Tariff Commitments

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PITCHING YOUR BRAND TO POTENTIAL CUSTOMERS

• Know your competitive advantage and highlight USP

• Partner with local distributor / retailer
  ▪ Network of retailers and experience
  ▪ Marketing and promotions
  ▪ Influencers

• Company commitment – exporting takes time and money
  ▪ Marketing and promotions
  ▪ Do your research; investigate market entry options and strategies
  ▪ Do you have capacity?
  ▪ Travel to market

• Blister packs/small packaging

• Solid pricing strategy

• Be able to compete with international competitors, especially US brands
GET UP TO 19 Beauty FREEBIES*

*Valid on select items on July 4, 2018 (today) only. While stock lasts.
PHILIPPINES: SOCIAL MEDIA CAPITAL

4-5 hours daily – on average!

Word-of-mouth and brand education: increased consumer sophistication

Social media influencers

“Unboxing”
THANK YOU!
DAMIEN ZUMBO
TRADE ADVISER – CONSUMER
AUSTRADE – SYDNEY
PLEASE SUBMIT ANY QUESTIONS

1. Select “Chat” function
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<td>25-29 Jan 2018</td>
<td>Australia Day Sale Event</td>
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<td>BeFe BabyFair</td>
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THANK YOU!