The Japanese Beauty Market
A plethora of opportunities for foreign brands yet an extremely challenging thousand-mile march

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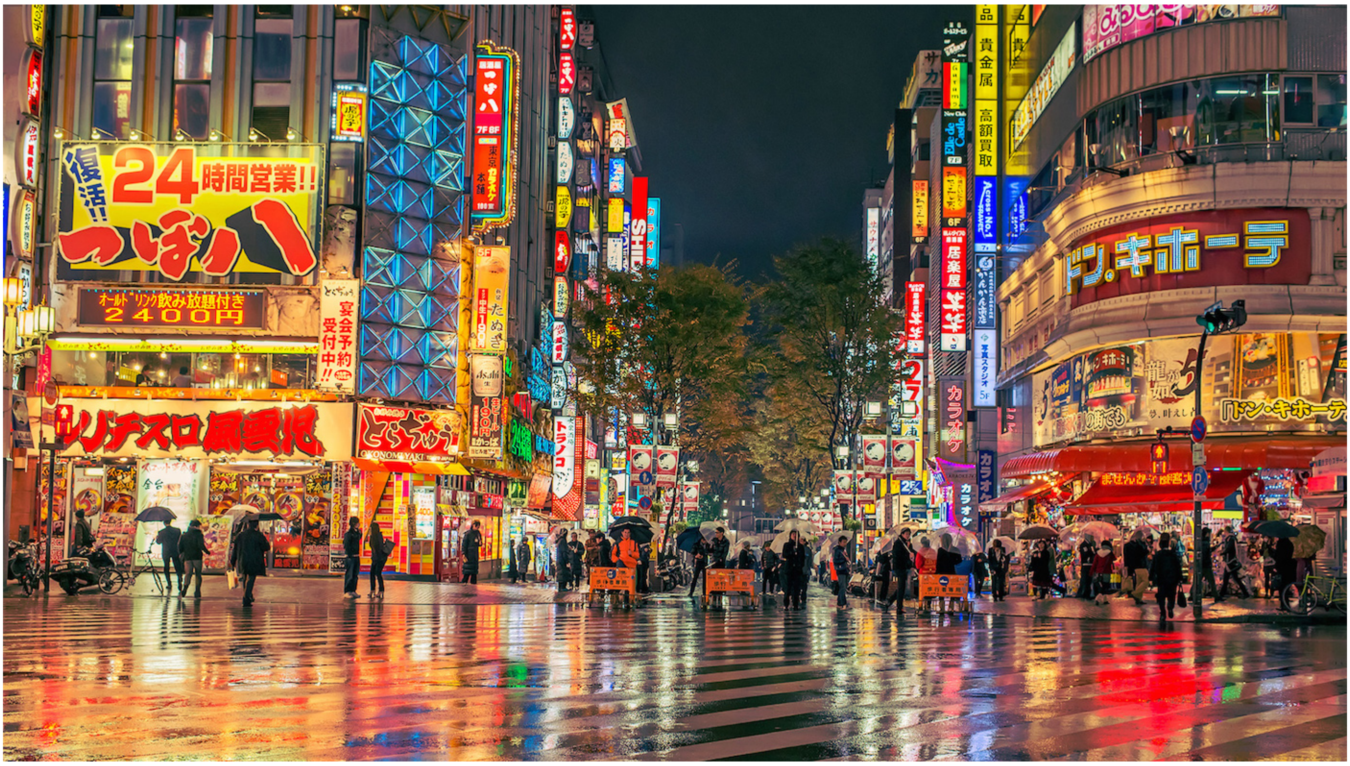


The future success of a business depends in part on its ability to continue to expand into new promising markets. There currently isn't a more attractive market in Asia Pacific than the Japanese one. Estimated at US$20 billion and ranked second in the world, Japan represents a plethora of opportunities for foreign brands that are able to combine identity, quality and innovation. The country is often said to be an ideal springboard to succeed in the global marketplace. However, for many reasons, it is extremely difficult for foreign companies to operate in Japan in the same way they do back home. Success lies in the business' ability to anticipate and capture key market trends, identify growth-oriented segments, and be able to create opportunities. Understanding a market is therefore key to making a success of your story; so here are a few tips that will help you and your business navigate in clearer waters and avoid pitfalls when expanding into the Japanese Market.

Overview of the Japanese Beauty Market

Japan possesses a mature and sophisticated economy that has the highest retail prices for cosmetics. All of this makes it a huge opportunity for any foreign business in the industry. The Japanese market was estimated at JPY 2.331 trillion (USD20 billion) in 2016 and is ranked 2nd worldwide. Unlike Westerners who use cosmetics to cover up skin imperfections, Japanese see in beauty products a way to make their skin look more attractive. The beauty market in Japan has been driven by high demand for skin care rather than makeup and fragrances.

Skin care represents nearly half of the Japanese beauty market with a total value amounting to approximately USD8 billion. Despite their high prices, skin care products consumption remains stable, as these items are an essential part of Japanese women daily beauty routine. Interestingly enough, skin care is appreciated by all age categories as more and more women in their early 20ies are beginning to use anti-aging products.

Regarding make up, the most famous product remains foundation, which accounts for about 45% of the total makeup segment. Younger generations have developed a strong appetite for eye makeup and blush, with both recurrently appearing in fashion magazines. Hair care, on the other hand, represents 20% of the total beauty market and has recently experienced major shifts. Shampoo, hair dye and treatments have become the new favourites, accounting for about 70% of all hair care products while colouring products have become less popular.

The use of perfume still remains an exception. In fact, perfume has long been considered a fashion accessory associated with luxury and prestige. Sales of fragrances therefore represent just over 1% of the total beauty market. Imported brands continue to dominate the market (82% market shares) at the expense of domestic manufacturers. The fragrance market is said to be bi-polarized between high-end perfumes and mass products. However, perfumes seem to become increasingly accepted by the Japanese society.

According to Euromonitor, Japanese men care is one of the fastest growing markets in the world. Men are increasingly craving for skin care brands. This strong appetite is driven by the strong purchasing power and the desire to take care of their appearance. Still according to Euromonitor, when more than 90% of the beauty market for women is already saturated, only 20% of men's market is exploited.

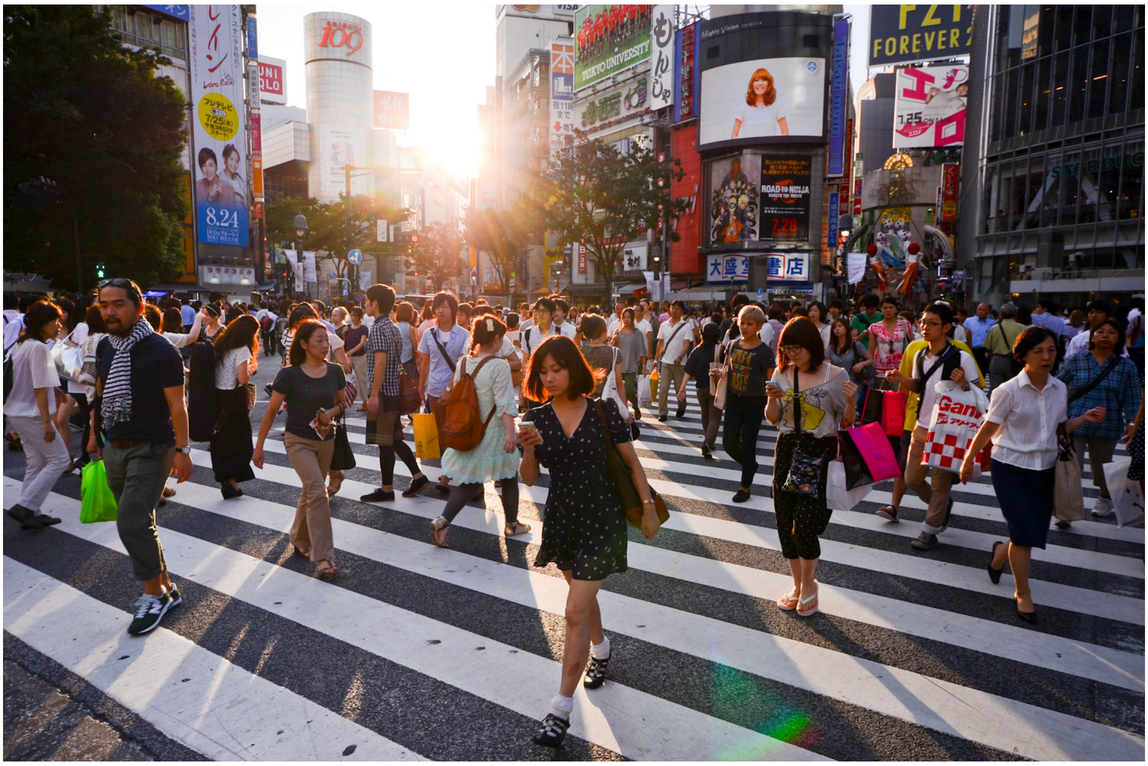
On the one hand, even though the premium market is still one of the biggest in the world, mass market is increasingly becoming popular. Key players are therefore forced to adapt their offers to this market they once used to neglect. Megabrands like Shiseido are introducing lower-end lines mainly distributed in drugstores. They try to focus their efforts on sales promotion. Hence, prices are dropping and the low-end market is growing faster than any other with an average increase of 3% per year. On the other hand, the organic and natural beauty market is still very much a niche but is rapidly growing thanks to not only a rising consciousness towards safety and security but also an increasing environment-conscious lifestyle and ethical consumption. The growth of this market is around 4% per year and it is likely to grow steadily.

Today, there are 3 groups of key players in the industry:

- Major Japanese groups such as Shiseido, Kao, Kanebo, Kose and Pola Cosmetics;
- Larger Western groups like Chanel, L'Oréal, Max Factor and Estée Lauder;
- Organic cosmetic companies including L'Occitane, Avène and Biotherm.

Europe is the major player of imported products. Most of the high-end, luxury and premium products are imported from Europe (mostly France, Italy, Switzerland and Germany) while mass-market and low-end products usually come from Asia and more particularly from China, Thailand, and South Korea.

The Japanese Consumer Behavior



The Japanese consumer is extremely picky and pays close attention to the value of the product. Japanese are always on the looking for the highest quality. Interestingly enough, Japanese are ready to spend fortunes on certain cosmetics but do not like to pay a lot for commodities like shampoo and soap.

One of the most important things for the Japanese consumer, aside from the product itself is the packaging. The brand and the product can loose credibility if the packaging is somehow of low quality. Japanese are always on the look for new products resulting in a decrease of the product life cycle.

Japanese view most of the European brands as being of high quality. These products are usually widely recognized for their design and traditional craftsmanship. However, the sole criterion of country of origin is not enough anymore: the once long-sought after *Made in France* and *Made in Italy* remains an effective sales argument but is no longer a enough to generate purchase as the products are often perceived as expensive with an equal quality to cheaper ones.

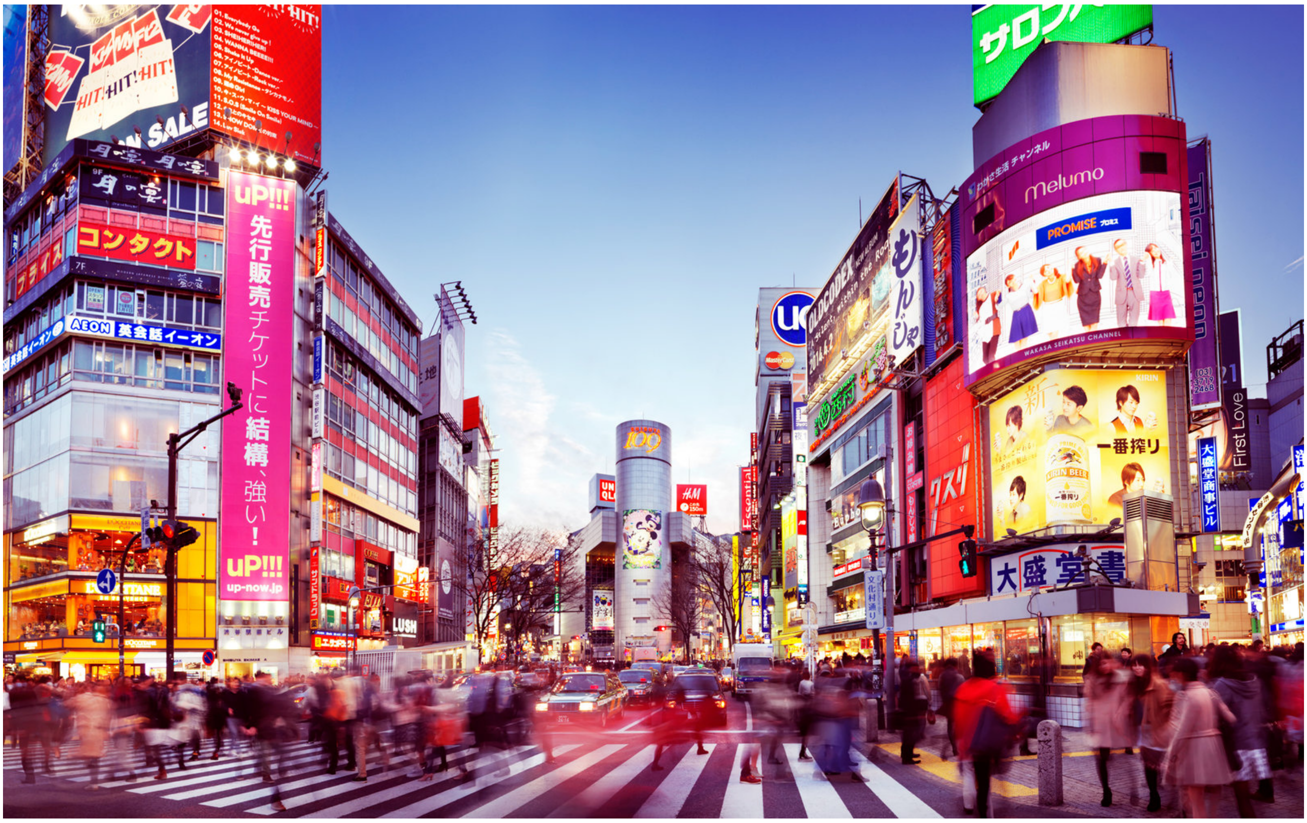
Access to information is an important driver in the purchase decision. Advertisements include detailed scientific data and brands usually offer copiously illustrated catalogues in order to communicate on ingredients, origins, and efficacy. If information is easily accessible and the expectations on quality are met, the person is likely to become a loyal customer willing to pay more.

Consumer behaviour greatly varies depending on the gender and age. Japanese women tend to have more of an impulsive buying behaviour whereas men purchase in a more purposeful way. Younger generations have lower incomes and are therefore primarily looking for cheaper low-end products with colourful and flashy packaging. European brands are usually not their primary choice contrarily to Chinese and Thai brands. The core target of the cosmetic market is moving from women between 25 and 35 years to more mature women that have higher incomes. New stores that are specifically dedicated to this new type of customer have seen a rise, offering highest quality products with very discreet and luxurious packagings. Moreover, Japan is known to be one of the fastest aging populations of the world (more than 25% of the population is over 65 years old). They have a strong purchasing power and are increasingly interested in their appearances and wellbeing making them represent a considerable potential.

Contrary to Western women, Japanese over 50 years old do not use anti-aging to look 10 years younger than they actually are. Japanese consumers only want to look healthy and comfortable with their age. It is not about looking 30 again, it's about being happy with whom you are (being old is beautiful, you should not hide what you are). Brands have started to avoid the use of terms like *anti* and prefer using terms such as *pro-aging care*. Japanese consumers also love the *no make-up* look (natural beauty is an ideal). Natural looks are now more on-trend than ever and brands are competing hard to provide optimal solutions.

Japanese, regardless of their gender or age are increasingly looking for the *X Factor*. Brands need to go beyond the product itself and offer interactive sensorial experiences to their customers, especially for high-end luxury products. Packaging is an essential part of the buying experience because it can help set the brand apart and convey a certain message to clients.

New trends are reshaping the Japanese Beauty Market



Foreign business wishing to enter the Japanese market can seize the numerous opportunities available to them. With constant progress in science, technology and biology trends in the beauty industry are rapidly changing. The latest fashion to hit the cosmetics industry is the appearance of *made for me* also known as *tailor-made* products. Foundation is all about finding the perfect shade. Hence, it has become the most famous customized cosmetic product on the market. The reason behind the success of personalized cosmetics is the satisfying feeling of having an original product that nobody else has. Customization is often seen as prestige. More and more beauty gurus have been mixing colours to create new original shades and the practice has hit the high street.

You know how many women often buy cosmetics and once they get home they do not like what they purchased because it does not look how they expected it to be? Back in 2011, Shiseido introduced the *magic mirror* to counter this problem. The latter magic mirror allows customers to virtually test the product before the purchase. The mirror lets the customer test hundreds of different products thanks to a camera that captures the face. This magic mirror has revolutionized the way Japanese women buy products because it gives them the feeling of buying the right product.

Offering this type of products, whether it's *tailor-made* or simply there to make customer's life and purchase decision easier, is still new on the Japanese market and thus represents great opportunities for potential new entrants.

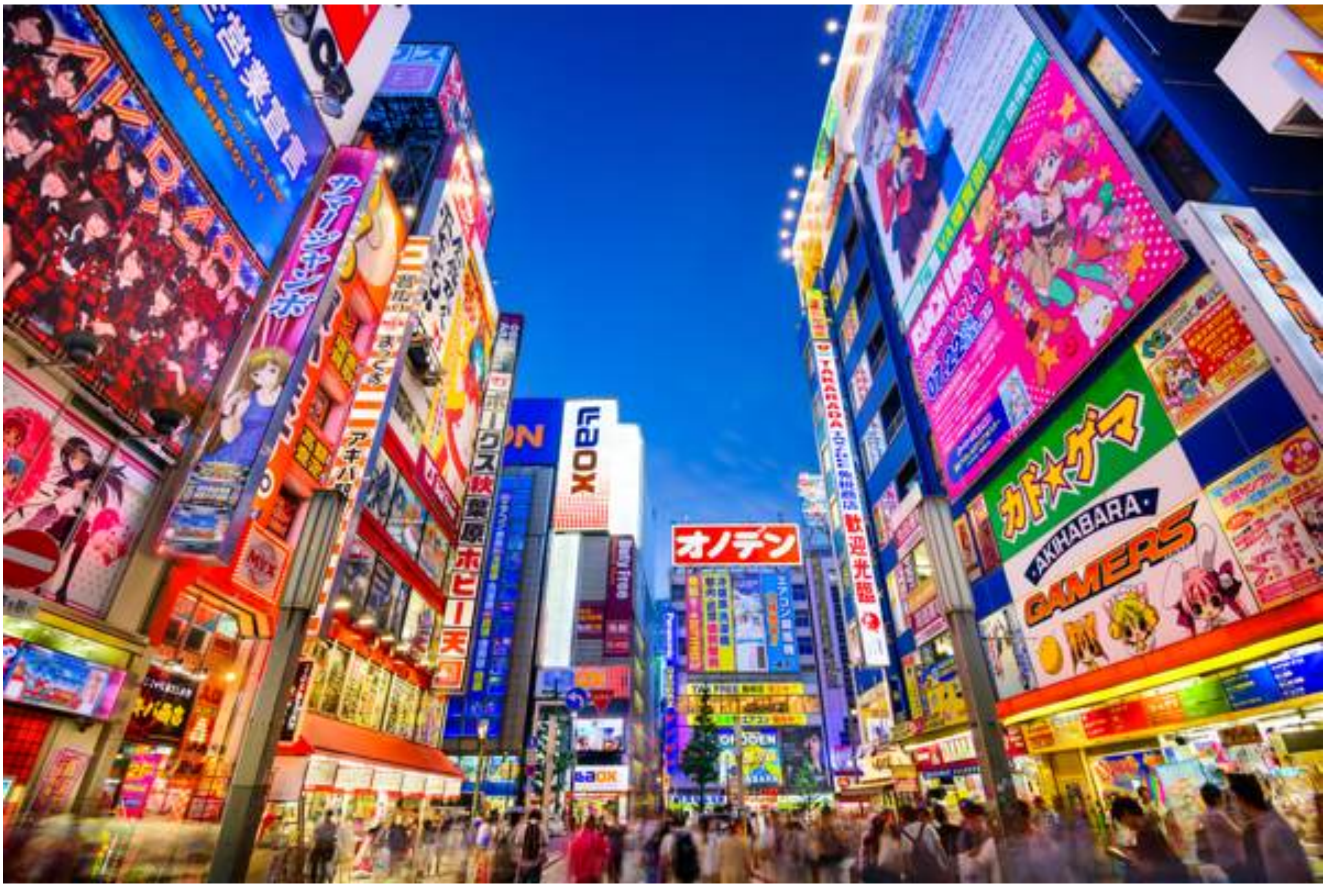
Not only new trends are about enhancing customer experience but they are about making customer's purchase decision and lives easier. The DNA testing kit was another ground breaking product that was introduced on the Japanese market back in 2014: it redefined the way people buy cosmetics and beauty products. The kit who was formerly available in limited laboratories is now purchasable in drugstores, convenience stores and online. The kit allows customers to clearly identify any disease predispositions as well as their physical constitution and even their personality. The customer is then told which products are most suited to them according to their individual character. The same year cosmetic giant Pola launched its high-end skin care brand *Pola Apex* that features no fewer than 2.56 million different combinations of skin care programmes. Each individual can find the correct one using the skin analyser developed by Pola itself, based on the company's database of 15 million skin types. During the first 3 months, people were so intrigued that sales increased by 70%.

Anti-pollution products have become an all-time favourite in Asia where air pollution levels are high, especially in China and Japan. Co^2 emissions, cigarette smoke and industrial emissions have opened up a new segment for cosmetic brands to develop skin care ranges that work to keep the skin healthy in such conditions by forming an invisible film on skin surface that prevents pollutants from staying on and entering the skin. In fact, such high pollution levels can cause intense dryness and acne. As urban lifestyles continue to grow around the world, so will anti-pollution products. Japanese consumers are particularly interested in products that are not only "anti-pollution" but that have multi-functional benefits including UV protection, detoxifying agents, BB elements, deep cleansing and isolating.

Last but not least, beauty salons are extremely popular in Japan. They offer a variety of services that are mostly based on devices and materials that used to be too expensive to purchase for a home usage. These devices were once restricted to professional use only. However, in the last few years, there has been a strong democratization of such products that became affordable. As a consequence a new trend appeared: the "at-home" beauty salons (e.g. beauty devices, 3D printing, face masks).

The Japanese Beauty Market, an extremely challenging landscape

At International Luxury Brand Consultancy, we know that expanding into a new market can be a tough decision, especially if you are navigating in unknown waters. We work with our clients so that we can provide them with clarity backed up with years of experience, expertise and knowledge. With many years of experience under our belt, we know exactly what are the different challenges that your business will have to face when expanding into Japan and we can help you overcome them.



The Japanese beauty market is highly complex because of its ever-changing landscape. The retail environment has greatly evolved over the years. There has been a constant drop in terms of sales and number of department stores. The number of department stores dropped from 476 in 1997 to only 250 in 2015. Despite this huge decline in department stores and sales, the retail market remains globally due to the constant growth of the convenience stores and specialty stores due to the increasingly aging Japanese population. Internet and e-commerce have also had a great say in the reshaping of the retail environment. Japan is the second country in terms of average Internet connection speed. E-commerce has definitely become a major distribution channel in Japan and represents a wealth of opportunity for any European brand.

One of the major challenges your business might encounter when expanding in Japan is the heavy presence of parallel markets (import and resale of non-counterfeit goods without the manufacturer's consent). Products are distributed via Internet but can also be found in discount stores at prices 30 to 60% below official retail prices. The grey market greatly affects prestige and high-end brands. The problem is that according to the Japanese law, neither the authorized importer nor the manufacturer can prohibit parallel imports.

Foreign companies must understand from the very beginning that Japanese needs and wants greatly differ from the Western ones. Take lotion for instance. In Europe, lotion refers to a cleanser, a moisturizer a makeup remover. In Japan, lotion is not used to remove impurities, residual traces of makeup or to balance the ph. Japanese use lotion to prepare their skin for the application of other products such as whitening, anti-wrinkle and anti-acne. Not only does the product has different usages but the application mode is also different: Japanese apply lotion in large quantities, by massaging the skin and often use it in facial masks. Western lotion is alcohol-free contrary to the one found in Japan. In fact, Japanese summers are very humid causing an alcohol-free lotion to turn your skin sticky. Japanese are used to overlaying four or five products. Therefore, when selling skin care in Japan, it is essential to clarify the role of each product, its function in relation to other products in the range and its optimal method of usage.

Other typical Japanese products that Western customers are not familiar with include:

- Biyoeki (key product of the Japanese beauty routine), a concentrated product that combines several functions: anti-aging, whitening and anti-fatigue
- Milky lotion, a mix between a lotion and a moisturizing fluid. It has a light texture, it is more moisturizing than a lotion, and can be used in conjunction with an essence or lotion before makeup. The milky lotion enhances the hydration of the skin and plays a role of "protective layer" which retains the moisturizing ingredients of the lotion.
- Whitening helps clarifying and illuminating the complexion of Japanese customers

Adjusting to cultural differences is essential to be successful whenever you export your products in a new market. In Japan, demand for cosmetics is seasonal. In other words, consumption is not uniform throughout the year. Seasonality is impacted by exogenous factors such as:
- Weather and external environment (humidity, temperature, UV index)
- Celebrations and holidays (Sakura Blooming, Christmas)
- Fashion trends

To respond to seasonality, brands must be able to often renew the products offered. During the Sakura Blossoming in April, brands successfully fit the celebration by offering products containing sakura extracts. However, competition is very though and it becomes harder each year for brands to be original and propose a totally new concept to consumers. The beauty advent calendar has become a very lucrative seasonal business in Japan due to the rise of *self-gifting*.

Entering the Japanese market can be extremely tough for many reasons, one being the highly complex political and financial structure of this market and in turn, the country. The Ministry of Health, Labour and Welfare (MHLW) under the Pharmaceutical Affairs Law (PAL) regulate cosmetics. When selling products in Japan, the first step for any brand is to ensure that its products are in accordance with the law. The assessment is performed on samples of the products by inspection facilities designated by the MHLW. Ingredients and components are minutely checked and analysed. Still on the same topic, advertising and labelling undergo thorough regulations. The Japanese law details labelling guidelines and products that fail to comply with these regulations are deemed improperly labelled making them impossible to sell. Packages must be minutely labelled to ensure appropriate use and handling. All information must be clearly and explicitly expressed in Japanese. Any label with false or potentially misleading statements will be prohibited.

Kawabe，the right partner to succeed on the Japanese Market

T.Kawabe & Co Ltd. is a Japanese handkerchiefs and wholesaler. Kawabe oversees the distribution of international renowned fragrances in the Japanese domestic and duty-free market. Brands distributed include: Versace, Prada, Ferragamo, Missoni, Paco Rabanne and Miller Harris to name just a few. As the previous CEO of Miller Harris, I was on the look out for the best distributor on the market. Selling fragrances in Japan is extremely tough as the use of perfume still remains an exception (fragrances represent just over 1% of the total beauty market). I identified T.Kawabe & Co Ltd. as a true gem because it was more than just a distributor. Miller Harris signed with them because it was not only about the business; it was about the people, the business ethics, and the professional expertise. Before that, T. Kawabe & Co Ltd. was not distributing any niche brands yet. Looking back, it was one of the best decisions I could have made for Miller Harris and myself and believe me when I say that working with them will give you the chance to develop your brand on the Japanese market to its full potential. Thanks to the great success of Miller Harris, they are almost reaching the agreement with one luxury fragrance brand of LVMH.

With years of professional experience in fashion and fragrances, Makoto Kitano is in charge of the management and marketing of luxury brands at Itochu, T. Kawabe & Co. Ltd. parent company. Itochu is the second-largest Japanese sogo shosha (general trading company). Among Japanese trading companies, it is distinguished by the strength of its textiles business and its successful business operations in China. Its major operational divisions specialize in textiles, metals/minerals, food, machinery, energy/chemicals and general products/real estate. Itochu was ranked 174th on 2013's list of Fortune Global 500 companies with an annual trading revenue of US$145 billion USD. The parent company focuses on how to import and develop the brand presence on the local market, invests considerable marketing budget in Kawabe whereas the latter focuses more on branding and how to sell the fragrance to consumers. The parent company also sends some talented staff to Kawabe to manage the fragrance business and implement the know-how of brand-business. Hiroichi Taniguchi is one of them and in charge of Kawabe marketing department.

Q & A with Mr. Makoto Kitano

1. ***Could you tell us more about Kawabe and your role as Itochu's Brand Manager?***

   As mentioned in the above Kawabe's introduction, Kawabe mainly takes charge of marketing & sales in Japan & duty free areas. On the other hand, Itochu mainly supports Kawabe as an advisory of legal issues and as a partner for logistics & payments. However, the two entities sometimes join forces and work together on the whole branding strategy. For instance, if we take the brand Nina Ricci, Kawabe is the exclusive distributor of the fragrances meanwhile Itochu is the exclusive distributor of fashion items (RTW and accessories). As you can imagine, the two entities closely communicate in order to achieve a synergy between Nina Ricci's fashion & fragrance. Thus Itochu always "injects" its know-how of brand-business into Kawabe and we try our best to create an absolute coherence between the parent company and its subsidiary.

2. ***How does the Japanese consumer differ from Western ones?***

   Generally speaking, Japanese consumers are very sensitive about the latest trends. The trend cycle in Japan is quicker than the Western one and is always floating. Younger generations prefer to feel an "experience" rather than just buying a product. Growing up in an affluent society after WW2 and a significant economic growth, Japanese consumers and especially Millennials have at heart new types of values like saving, sharing, discovering etc.

3. ***The use of fragrances is still rare in Japan but is said to becoming increasingly mainstream. How is the Japanese fragrance market performing?***

   Compared to Westerners, Japanese have the habit of taking a bath and/or shower every day. Generally speaking, Japanese consumers have more of a "deodorant culture" rather than "fragrance one". Fragrance items is still nonessential goods for Japanese daily life as the culture, let's write it is still luxury products as the item.

- As such luxury products, the market size of fragrance is slightly increased. If we categorize the brand, niche/maison fragrance is expanding while fashion fragrance is diminishing.
- If we categorize the fragrance items, light fragrance like body mist or room fragrance are getting popular especially for young generations.

4. *What is the most difficult aspect of expanding your business on the Japanese market? What are the biggest challenges faced in the market today?*

- The product range of scented items are becoming wider in terms of product category such as cosmetics, shampoo, and softener. Additionally the price of those general scented item is also becoming cheaper. We have to compete with such wider range products and such cheaper products.

5. *Does the Made in Italy and Made in France brand still has people's attention shifted to international brands? Which other countries are competing for the leading role in Japanese consumers' beauty cases?*

- Italy or France made are not so important factor for the consumers nowadays. Oriented by products themselves become important factor. For the country of origin, Japan made is a kind of premium.

6. *Any popular fragrance trends that are currently increasing in popularity? On the contrary, any trends declining?*

- It should be same as above Q3

7. *Is the Japanese consumer more swayed by the marketing and packaging or by the fragrance itself?*

- It should be depending on a consumer profiles such as age, area of living, sex.

8. *Could you tell us more about how Kawabe was able to successfully launch Miller Harris on the Japanese market?*

- The brand awareness of Miller Harris was not enough yet. However, we have kept investing in order to enhance the brand value and its brand awareness. Of course, it takes time and enormous effort. However our passion about the brand/ Miller Harris is much bigger than just time or money.
- It's the most important point for Itochu & Kawabe to have a faithful & respectful relationship between each suppliers, brand owners & local retailers. In order to achieve and keep this good relationship, we feel it is important to have keen interests against products provided by the supplier, That's why, when discussing with Miller Harris in UK, Itochu & Kawabe decided to send 6 staff including trainer, sales force etc… to visit to Miller Harris HQ and stores to understand/study Miller Harris world, history, product.

Expanding into new markets is a major opportunity that businesses simply cannot ignore. However, one must keep in mind that it can be a major battleground. Needless to say that business will face obstacles whether it's financial, importation/exportation, partnership, local laws on business incorporation, cultural differences. Japan is no exception, far from it. Foreign companies must find the right partner to avoiding any cultural missteps and language issues as communication and greetings are of utmost importance in Japan. One of the very first mistakes that most foreign companies make is about retail price. It is true that retail prices in Japan are probably the highest. However, mass market is taking over premium market and retail prices are going down; so thinking about selling 50% or even 100% more in Japan is senseless. Before attempting to enter the market, companies must fully understand and take into account the hurdles. Hence, companies should try as much as possible to benefit from help and support of both Japanese and *country of export* organisations, in order to avoid common mistakes and experimental market entry. With the proper support and market knowledge, your company, if able to combine identity, quality and innovation could be successful in this highly challenging market.

For more information on how IL Brand Consultancy can help you expand your brand into different markets such as Japan, please contact us on info@ilbc.co.uk or visit our website at www.ilbc.co.uk