

HOT MARKETS: AUSTRALIA

A POTENTIAL GOLDMINE FOR BEAUTY BRANDS



VALÉRIE KAMINOV – BIOGRAPHY

Having spent over twenty years working with a vast array of luxury, premium and niche beauty brands and fragrances, Valérie has extensive knowledge and practical experience of their supply, distribution and retail, pertinent commercial practices and consumer habits on a global and local basis.

Her expertise has been highly valued by multi-national organizations, SMEs, start-ups, privately owned companies and financial investors.

Certified in Corporate Governance from INSEAD Business School, Valérie has the remarkable ability to successfully set the company's strategic direction, often across diverse product markets and geographies, and monitor the firm's risk profile.

As a qualified Non-Executive Director who was awarded the prestigious Financial Times Post-Graduate Diploma, Valérie Kaminov is highly trained in corporate governance and is an experienced NED and Director enabling her to have a holistic understanding of boards.

She advises both as a consultant and an NED. Valérie's experience earned her a reputation with major players in the industry who hired her to establish them globally.

Her expertise in brand evaluation, acquisition due diligence, risk assessment and commercial growth has been highly valued by Private Equity Funds, multi-national organizations and financial investors.

She is also dedicated to passing her knowledge along through a range of conferences and events.

Valérie has been a guest speaker for the not-profit organisation, CEW, at their Mentoring Services where leading executives offer insights into beauty industry issues and inspiration for professional growth.

At the International Manufacturers & Distributors Forum (IMF) Master of Ceremony, Valérie organises a very unique conference; A global European gathering for manufacturers, brand owners and distributors to come together and discuss challenges faced by their business and the industry by giving the attendees unlimited networking opportunities.

The future success of a business depends in part on its ability to continue to expand in new markets. But a bad bet can easily bog down your business in the blink of an eye. There currently isn't a larger untapped market in Asia Pacific than Australia.

The world's largest island is also at the forefront of beauty and innovation.

With over 89% of Aussies living in cities, Australia boasts one of the most botanically diverse but also harshest environments in the world.

It has become one of the market leaders in skincare and cosmetics.

Believe me when I say that it can offer huge opportunities if dealt with successfully: Australia's economic resilience and steady growth prospects provide an ideal environment in which to do business.

Needless to say, the Australian business culture is unlike any other around world and to thrive in this market, new entrants will need to have a thorough understanding of the practical challenges they will face, if they want to succeed.

Understanding a market is key to a successful expansion, so below we have put together a few tips that will help you and your business navigate in clearer waters and avoid pitfalls when expanding into the Australian Market.

AN OVERVIEW OF THE AUSTRALIAN BEAUTY MARKET

Only twenty years ago, the beauty industry was seen as an industry that exploited women's "unconscious anxieties" and perpetuated double standards of appearance.

Today however, the beauty market is booming, fueled by image-conscious millennials that increasingly aspire to the camera-ready perfect pout.

The beauty industry is one of the few sectors that has remained impervious to the ups and downs of markets.

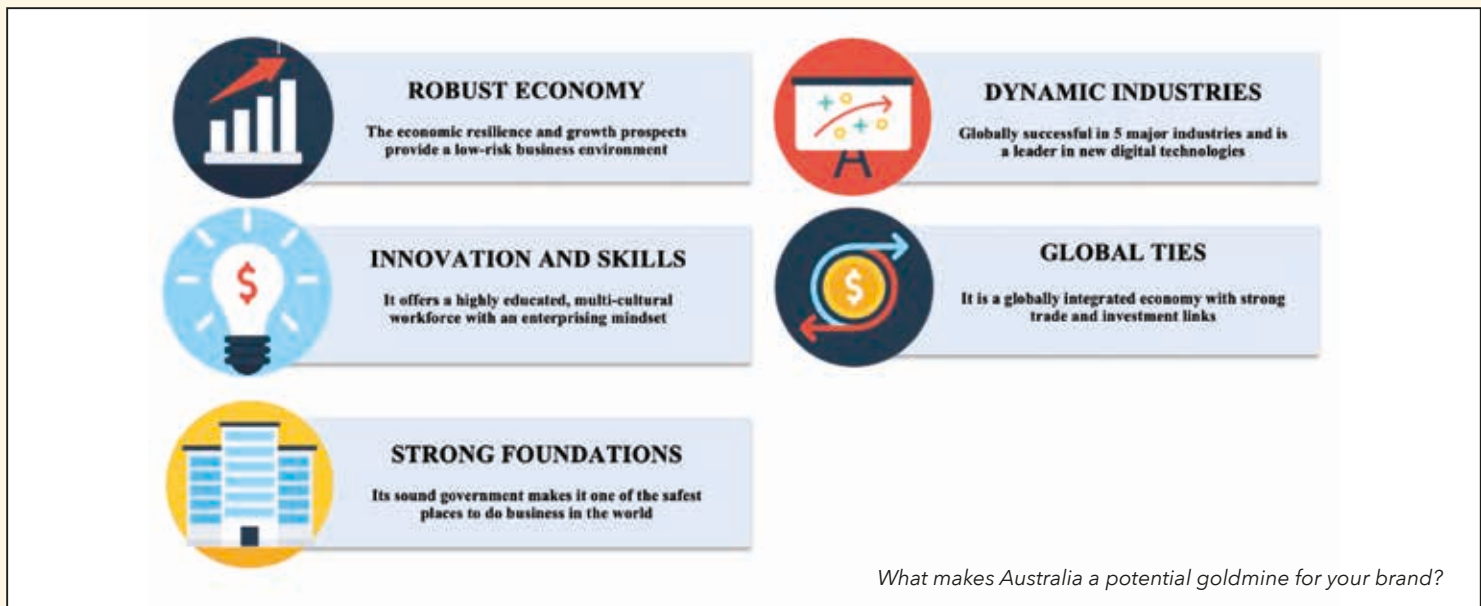
While the industry is affected by economic downturns, it can always count on the *lipstick effect* to maintain a certain volume overall.

Since 2015, the Australian beauty market has been growing steadily amid fierce competition, with a 7% growth in skincare sales and an impressive 28% growth in natural, active and

dermo-cosmetics brands from 2017 to 2018, driven by consumers desire to have a healthy natural looking skin.

The industry was estimated to be worth USD 4.98 billion and is projected to grow at CAGR of 9.31% to reach USD 7.76 billion by 2020. Australia's GDP is projected to continue growing after a growth of 2.5% in 2016 and 3% in 2017, fueling consumer spending even more.

Australia's relatively high level of discretionary spending, reliance on imported personal products—74% of all consumption in 2015—and affinity for U.S. and European brands makes Australia a promising market for U.S. cosmetics and personal care products. High disposable incomes, desire to look good, availability of new markets and increasing access to a greater audience are some of the factors that are driving the growth of the Australian beauty industry.



According to Euromonitor, sun care, skin care and color cosmetics are projected to see the strongest growth rates. The perfumes and fragrances segment are somewhat static and will remain so, due to saturated product offerings, particularly for women's products. Hair care products will also remain stagnant, with the highest growth in colorants and hair styling products. In the next two years, natural ingredients will drive new product with consumers also seeking multifunctional benefits. Celebrity endorsements and professional hair products will be increasingly popular within the next few years. The Australian beauty market is highly competitive. However, the industry keeps seeing new entrants, often lured by high margins and a resilient growth of the sector. Retail concentration is high. Premium brands are either sold through pharmacy chains or the only two Department Stores chains (Myer and David Jones). Luxury brands, on the other hand, are sold exclusively in retail stores including Mecca and Sephora. E-commerce is rapidly emerging as a competitor to direct sales for all mass and premium brands. Australia has the fourth highest B2C e-commerce sales rates in the Asia Pacific region behind China, Japan and South Korea. In 2015 alone, Aussies spent around USD 882 million on online cosmetic purchases, with social media

considered a significant driver in the promotion of B2C transactions. Prior to the online apogee, consumers used to be marketed through traditional advertising and print editorials. With the advent of social media, and more specifically Snapchat, Facebook and Instagram, brands now have a direct access to their audience through their own channels and by working with beauty bloggers. Lauren Curtis and Chloe Morello have become big in the beauty business with the pair reaching the extraordinary amount of 11.5 million followers worldwide across Facebook, Instagram and YouTube combined. Approximately 60% of millennials say an influencer has changed their life or their view on specific brands, making these two bloggers big business. As you can imagine, world renowned brands are jumping on board. Whilst e-commerce is rapidly becoming a direct competitor of brick-and-mortars, it is important to remember that cosmetics and beauty products are hard to sell in the sense that the consumers are not intrigued by the brand alone anymore and cannot feel the product, as one would do in Fashion (feeling the fabrics, the texture). Hence, experiences are essential. Through sensations, emotions and cognitions, brands must engage the customers and create memorable events connecting with consumers on an emotional level.

Luxury customer experiences need to emphasize on the "dream component/factor" and are highly influenced by the store atmosphere. The customer service should be prompt and impeccable as well as the product which should be of exceptional quality. However, this is not all. The brand should go beyond all this by exceeding all expectations. The ability to touch, smell and play with the products is part of the reason why brick-and-mortars remain very popular in Australia. Buying beauty products can be overwhelming: if consumers can try the products before they buy them, they're more likely to shop there. Consumers in Australia are known to be big spenders on beauty and personal care products. Per capita, Australians average annual spend on cosmetics is \$146, compared to \$139 in the U.S. and \$223 in Japan. Both women and men are well-traveled, beauty savvy individuals who have often experienced high-end stores in Europe, Middle East or North America. Hence, there are great expectations from consumers behind every brand launch. In the near future, growth will be driven by new product innovations and we expect to see a shift towards more indulgent product types. The introduction of new products has been a key driving force in the overall industry's performance over the past five years, stimulating new demand in a relatively saturated and mature market.

THE RISE OF A-BEAUTY

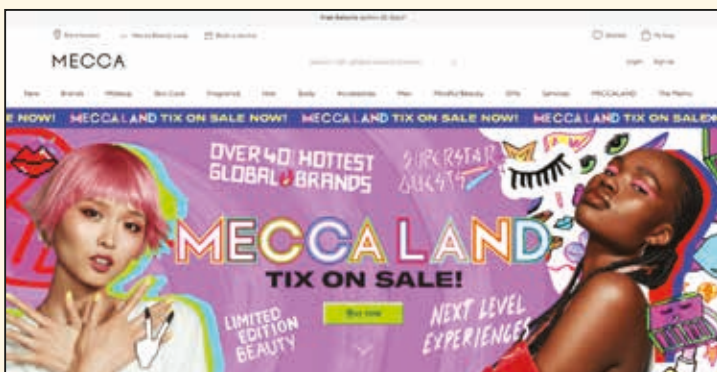
Australian consumers are generally considered early adopters of international trends. This is not only due to the fact that Australia has the highest internet penetration rate in the Asia Pacific region but also to the fact that Australia is also very culturally diverse. About 30% of its total population was born overseas, with beauty trends from Europe, North America and Asia very quickly finding their way to the island. While Australia is not necessarily known for setting beauty trends, over recent years, 'A-beauty' seems to have caught up with J and K-beauty. Australia has always been renowned for its natural resources such as sea salt, eucalyptus and charcoal, to name just a few. Consumers are increasingly demanding transparency and are becoming more and more conscious of what they put in and on their bodies. Consumers are becoming more conscious and aware of their health. People are interested in natural beauty products that contain ingredients such as vitamin C, seaweed, oatmeal, honey, macadamia and coconut to name just a few. As consumers become more educated on the ingredients, they are progressively becoming reluctant to use mass-market (but not only) beauty products containing nasty chemicals such as parabens, PEGs, sodium lauryl sulphate and fragrances. According to PETA there has been a 360% increase in the number of vegans in the UK alone over the last 10 years. The demand for products certified cruelty-free is booming and driving the trend of increasing sales. A number of

Australian companies have leveraged their heritage to stand out. As large proportions of the country remain uninhabited, there is an abundance of native plants ready to be harvested and marketed as the next big thing in beauty. Established in Australia, brands with natural ingredients as their main selling point include: Jurlique, Aesop and Sukin. Moreover, as an island with large amounts of exposure to the sun, skincare is high priority on Aussies agenda with SPF being a key focus point. New innovations in sun care are frequent.

MECCA, THE RIGHT PARTNER TO SUCCEED ON THE AUSTRALIAN MARKET

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 expertise and knowledge. With many years of experience under our belt, we can help you avoid pitfalls that may be encountered along the way. While the Australian beauty market offers a myriad of enticing opportunities to newcomers, it is a highly complex market to penetrate due to various factors, both endogenous and exogenous. Economic slowdown, highly saturated markets on the East Coast and difficulties in market segmentation, insufficient research into the new

trends of incorporating natural ingredients into cosmetics combined with a lack of local brands are some of the challenges encountered on this market. It is crucial for brands to be fully aware of the different entry barriers and to understand what is at stake before attempting to enter any market. Australia is no exception, far from it. If you wish to expand your business in Australia, one of the key criteria in whether you will be successful or not is in the selection of a local partner. Choosing the adequate partner that has a genuine capacity to navigate in the very complex and constantly changing regulatory world can be tough. Since its inception two decades ago, Mecca has become the reference in beauty in Australia by trekking the global beauty path to discover emerging makeup brands, niche fragrances and cutting-edge skin care and bringing them home for Australian women to enjoy. The company was born from its founders' strong dissatisfaction with the approach of established cosmetics brands which, at the time, all had silo-like kiosks in Department Stores and often poorly trained and pushy sales representatives that were unable to offer tailored services. She would always walk away slightly dissatisfied with the whole experience because of the way that it was structured. She couldn't believe there wasn't a more human and authentic way of buying beauty products. To her, there had to be a way where women could actually feel empowered.



Mecca has become one of the biggest e-commerce-enabled businesses in the country in terms of sales and web traffic.



While Mecca Cosmetica boutiques were designed for an older, more discerning clientele, the Mecca Maxima stores have been thought for a younger, more budget-conscious and social-media-obsessed consumer

And this is how Mecca was born. Having been featured in various high-end magazines such as Vogue Paris, today the company has become the ultimate global beauty destination alongside big-names such as Corso Como Milano, Barneys New York and Liberty London to name just a few. When visiting Australia for the Olympic Games in 2000, Mr. Lauder, founder of the eponym Estée Lauder brand, predicted that Mecca would become a major player in Australia's premium beauty market, which was at the time dominated by David Jones and Myer. Ironically, when Horgan approached Poppy King in the 1990s to canvass the idea of launching Mecca, King advised against it, arguing that the Australian market was too small to support such a venture. Since 1997, it has grown to 82 outlets - both bricks-and-mortar and online - across Australia and New Zealand, with six more due to open by year's end. Today, Mecca has also become one of the biggest e-commerce-enabled businesses in the country *in terms of sales and web traffic*. The first store was opened in Melbourne's upmarket South Yarra and, at the time, only stocked beauty products from seven international brands including Nars, Urban Decay

and Make Up Forever. Today, Mecca brings the best in global beauty across unique concepts - Mecca Cosmetica and Mecca Maxima - by offering its clients more than a hundred brands, exceptional services and beauty expertise in unique store environments tailored to how each customer chooses to shop beauty. While Mecca Cosmetica boutiques cater for an older, more discerning clientele, the Mecca Maxima stores have been launched to cater for a younger, more budget-conscious and social-media-obsessed consumer, also known as the *Mecca beauty junkie*. Mecca's success is attributed to strong relationships with suppliers, its customer service focus, a strong social media following and its innovative formats, which are now prompting more traditional retailers to follow the lead. Its expert buyers travel the world to find the most iconic brands and the best edit of beauty. Some brands and products are exclusive to Mecca: customers won't be able to find them anywhere else in Australia and New Zealand. Mecca also offers its clients the best prices on the market. The company knows its customers are looking not only for the best value on their favorite beauty brands but also for the convenience of buying the latter locally at any time. Hence, Mecca has always been

committed to bringing its customers exclusive brands at prices as close to the international market as possible. Fluctuations in the Australian dollar mean Mecca prices will change from time to time. But any of these changes will always remain in line with the company's *price promise* and its commitment to bring clients the best value possible. Mecca was also able to successfully harness social media and enlist it-beauty vloggers, influencers and models for its own online make-up tutorials. Tens of thousands of fans post myriads of photos of themselves on Instagram using the hash tag *#meccabeautyjunkie*, flaunting the latest beauty trends. Mecca's USP is that its founder regularly checks the site to peek into her customers' world. With its brand agnostic, hands-on and consumer-driven approach, Mecca has become an unstoppable beauty powerhouse and has changed forever the way Aussies shop for beauty products. While sales in Department Stores have grown only by 2%, Mecca Brands soared 52% to \$287 million in 2016 alone and overall sales of the group have grown around 45% each year since 2011. But that's not all. Ms. Horgan says that sales across retail,



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distribution and online are now more than USD 500 million, giving the group control over 23% of the USD 2.4 billion Australian premium beauty market and 13% of the wider USD 4.1 billion.

It's main competitor, Sephora, operates on a similar model by stocking a wide array of brands under one roof and targeting millennials with pumping music, brightly lit counters and accessible price points.

The difference is that Sephora - which has about 2500 stores in 33 countries - is backed by a huge multinational company, LVMH. In Australia, Sephora has just opened its 12th store, and according to one of the many parent company spokespersons, the store expansion strategy in Australia and New Zealand will continue. Over the last few years, Mecca has not only hit the runways by becoming Melbourne's Fashion Week official beauty partner but has also sponsored National Gallery of Victoria's blockbusters exhibitions including Jean-Paul Gaultier and Andy Warhol.

With a growing economy and the rapid take-up of high-end and niche beauty market, Australia is booming. Seeing numbers like these can make any foreign company jump at the idea of tapping into this ever-growing market. The predominant trends include lasting power and new color palettes, increasing market share for ethnic products, sun protection as well as an increased preference for vegan, organic and natural beauty products to mitigate harmful effects of pollution, sun, dust, and harmful ingredients typically found in cosmetic products. Consumers are increasingly expecting multi-benefit products. Aussies tend to be brand loyal, purchasing multiple products from the same brand line.

But the beauty industry in Australia is shifting rapidly, and the market is ripe with

opportunity for brands who can adapt. Skincare and cosmetics have seen the most growth, and competition has increased as international products keep flooding the market. Luxury brands can feed on this growth, as Aussies opt to spend more money on premium products. Tapping into Australia can be a successful way to leverage your core business for growth. However, believe me when I say, it takes a disciplined process to accurately assess the full potential of each growth opportunity. It can be extremely tough for many reasons. Many brands get easily scared when seeing the pitfalls and avoid entering the market altogether. However, the Australian beauty market is a potential goldmine to watch in the near future because it is rich and diversified and keeps growing at a fast-pace. According to Euromonitor, in 2015, Australia's total personal care and cosmetics market was estimated at US\$3.4 billion, with over 70% of all consumption imported. Through 2018 there have been good prospects for the industry, with the overall market growing by 4% percent. However, foreign companies need to keep in mind that it is no easy task to expand in Australia and that it is essential to have the right strategic plan. With a postcard-perfect coastline and a hinterland of rolling rainforests, this region is awash with opportunities. Attracting young consumers will remain essential with recent trends showing that millennials accelerate growth in retail. With these younger generations, word-of-mouth will have to remain a top priority while setting up a strategy. By choosing the adequate strategic plan and partner, Australia could definitely be a potential goldmine for your brand.