Market Trends of Korean Cosmetics

- In-Cosmetics Asia Vietnam Roadshow
- August, 2012
- Younki CHO, CEO, www.activon.kr
MyeongDong, The Mixer of all over the ASIA

- In the district’s boutiques and department stores, shoppers are as likely to hear Chinese and Japanese spoken as Korean, for South Korea is today a shopping leaflet for tourists across the region.
Koreans; Who they are?

• “Koreans generally are not shy about commenting on appearance and judgments on hiring and so on can be based on superficial criteria, so people here are very, very conscious of how they look,”
Korean Cosmetics Market (‘10)

- No. of manufacturers : 773
- Production : 6.0145 trillion (KRW)
- No. of Importers : 1,105
- Export : 761 million (USD)
- Import : 1004 million (USD)
- Scale of Market : 14.4 trillion (KRW)

Source : Korea Customs Service, Korea Pharmaceutical Traders Association, Korea Cosmetic Association
<table>
<thead>
<tr>
<th>Kinds</th>
<th>2009</th>
<th>2010</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Production</td>
<td>%share</td>
<td>Production</td>
</tr>
<tr>
<td>Skin care</td>
<td>22,540</td>
<td>43.6</td>
<td>25,099</td>
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<tr>
<td>Functional cosmetics</td>
<td>12,401</td>
<td>24.0</td>
<td>15,187</td>
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<tr>
<td>Hair care</td>
<td>7,778</td>
<td>15.0</td>
<td>9,267</td>
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<tr>
<td>Makeup product</td>
<td>3,078</td>
<td>6.0</td>
<td>3,214</td>
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<tr>
<td>Bath care</td>
<td>1,886</td>
<td>3.6</td>
<td>2,588</td>
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<tr>
<td>Eyes–makeup cosmetics</td>
<td>1,350</td>
<td>2.6</td>
<td>1,575</td>
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<td>Men’s Grooming (Shaving product)</td>
<td>1,173</td>
<td>2.3</td>
<td>1,570</td>
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<tr>
<td>Children’s product</td>
<td>619</td>
<td>1.2</td>
<td>644</td>
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<tr>
<td>Hair–dyeing product</td>
<td>270</td>
<td>0.5</td>
<td>339</td>
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<tr>
<td>Nails care</td>
<td>314</td>
<td>0.6</td>
<td>330</td>
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<tr>
<td>Fragrance</td>
<td>276</td>
<td>0.5</td>
<td>329</td>
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<tr>
<td>Body odor care</td>
<td>5</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Sum</td>
<td>51,686</td>
<td>100</td>
<td>60,145</td>
</tr>
</tbody>
</table>

(Unit: KRW billion, %)

* Source: Korea Cosmetic Association
Cosmetics Production in Recent 5 Years

Annual growth rate (value) : 10.9%
Annual growth rate (No.) : 11.9%

Source: Korea Cosmetic Association
Serving Our Best in Cosmetics
Manufacturer vs. Importer

Source: Korea Cosmetic Association

Annual growth rate (importer): -4.0%
Annual growth rate (manufacturer): 11.2%
Export & Import (‘06~’10)

- Import: 1004 million USD (’10)
- Export: 761 million USD (’10)

Annual growth rate (import): 10.0%
Annual growth rate (export): 28.4%

Balance 2006: 280,311
2007: 304,067
2008: 363,823
2009: 423,240
2010: 761,082

Source: Korea Customs Service

Serving Our Best in Cosmetics
Import(‘10)

Total Imports: 1004 million (USD)

- Shaving product: 1.2%
- Baby personal care: 0.7%
- Haircare: 12.5%
- Make-up product: 17.9%
- Bath care product: 1.9%
- Fragrance: 8.3%
- and many others: 0.3%

Skin care: 56.5%

Source: Korea Customs Service

Serving Our Best in Cosmetics
Export(‘10)

Total Exports: 761 million (USD)

- Make-up: 15.71%
- Hair Care: 6.58%
- Skincare: 76.06%
- Bath and Shower: 0.36%
- Mens Grooming: 0.02%
- Children’s: 0.02%
- Fragrance: 1.03%
- and many others: 0.22%

Source: Korea Cosmetic Association

Serving Our Best in Cosmetics
## Ranks of Korean cosmetics company

<table>
<thead>
<tr>
<th>회사명</th>
<th>매출액 10.12</th>
<th>매출액 09.12</th>
<th>증감률 (%)</th>
<th>영업이익 10.12</th>
<th>영업이익 09.12</th>
<th>증감률 (%)</th>
<th>경상이익 10.12</th>
<th>경상이익 09.12</th>
<th>증감률 (%)</th>
<th>순이익 10.12</th>
<th>순이익 09.12</th>
<th>증감률 (%)</th>
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<tbody>
<tr>
<td>1. AmorePacific</td>
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<td>1,769,010</td>
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<td>340,218</td>
<td>300,580</td>
<td>13.2</td>
<td>355,544</td>
<td>299,280</td>
<td>18.8</td>
<td>284,481</td>
<td>225,878</td>
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<td>2. LG Beauty &amp; Health</td>
<td>1,747,660</td>
<td>1,525,071</td>
<td>14.6</td>
<td>225,242</td>
<td>180,069</td>
<td>25.1</td>
<td>195,555</td>
<td>165,274</td>
<td>18.3</td>
<td>149,090</td>
<td>126,726</td>
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<td>3. Aekyung</td>
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<td>13,596</td>
<td>25,930</td>
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<td>4,563</td>
<td>1,628</td>
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<td>4. The face shop</td>
<td>287,657</td>
<td>257,122</td>
<td>11.9</td>
<td>48,037</td>
<td>41,531</td>
<td>15.8</td>
<td>48,324</td>
<td>42,161</td>
<td>14.6</td>
<td>36,652</td>
<td>32,077</td>
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<td>5. Able C&amp;C (Misha)</td>
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<td>181,127</td>
<td>34.2</td>
<td>29,420</td>
<td>19,355</td>
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<td>31,536</td>
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<td>23,772</td>
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<td>653</td>
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<td>7. Skinfood</td>
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<td>12,269</td>
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<td>8. Etude</td>
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<td>14,857</td>
<td>13,928</td>
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<td>9,138</td>
<td>6,752</td>
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<td>8,861</td>
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<td>16,584</td>
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<td>17,143</td>
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<td>12,930</td>
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<td>11,051</td>
<td>4,099</td>
<td>170.3</td>
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<td>-10,708</td>
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<td>89,851</td>
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<td>-5,346</td>
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<td>14. Inisfree</td>
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<td>-</td>
<td>8,649</td>
<td>-</td>
<td>-</td>
<td>8,615</td>
<td>-</td>
<td>-</td>
<td>6,503</td>
<td>-</td>
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</tbody>
</table>

Serving Our Best in Cosmetics
Korean Market Share

• Amorepacific has a 34% market share
• LG Household and Healthcare has 10%
• Global brands take around 25%.
• The remaining 31% of the market is made up of 600-700 small companies
  – (though there are a few up and coming stars among them, such as The Face Shop)
Skin Care, Dominant category.

- In common with other Asian nations, demand for perfumes and make-up is low. **Skin care is the dominant category**, particularly with regard to moisturizing and whitening products. However, South Korea’s skin care market has its own idiosyncrasies. The current trends are for **BB creams** and organic and/or herbal ingredients.
In the beginning of main trend, **Hanbang.**

- Hanbang: Korean traditional herb medicine
  - Sulwhasoo
  - The history of Whoo
  - SU:M37

- They have both created oriental product lines. **This is the competitiveness of the Korean market.**
Korean wants to have **Clean, clear skin**

- “We use **natural, organic and herbal medical ingredients**, such as ginseng, green tea and bamboo extract for our skin care products. We always try to find something that differentiates.”

Serving Our Best in Cosmetics
Natural & Organic is main

- Propanediol
- Natural & Ecocert

Serving Our Best in Cosmetics
Paraben Issue

- Parabens are a class of chemicals widely used as preservatives by cosmetic and pharmaceutical industries.
- Some scientists concluded that the presence of parabens may be associated with the occurrence of breast cancer.
- Korean Cosmetic manufactures finally changed Paraben into other putative agents (Phenoxyethanol, Hexanediol)
Petroleum Issue (GMO Issue)

- In Korea, many customers want to use cosmetics not derived from petroleum sources.
- **Korean cosmetic companies** like to find natural-derived glycols. 1) natural origin and moreover 2) GMO-Free.
- **GMO-free Propanediol** has a lack of irritation and sensitization, and moreover, environmentally-friendly nature.
Unique Formulation

- **Transformation Cleansing Milk**: This formulation convert lotion into oil phase.
- **Thermal Sheet Face Mask**: In winter Many koreans need heat onto their face.
- **Botanical Silica Face Powder**: Basically Many makeup product use silica derived from stone based normal mineral. But this concept use silica from rice.
- **Visible capsule**: Hera, LG & Thefaceshop.
Visible Capsules

Pseudo Caviar Capsule®
: Looks like cavior

Chia seed capsule®
: Looks like Chia seed.

Sea Grape Capsule®
: Looks like sea grape

Because of variety of color, size, and active ingredients.

Serving Our Best in Cosmetics
Korean retail routes

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>2011E</th>
<th>YOY(%)</th>
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<tbody>
<tr>
<td><strong>Brand-shop</strong></td>
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<td>앞브랜드</td>
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<td>2,800</td>
<td>2,720</td>
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<td>뒷브랜드</td>
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<td>8,800</td>
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<td>뒷브랜드</td>
<td>6,660</td>
<td>8,000</td>
<td>9,500</td>
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<td>총계</td>
<td>18,460</td>
<td>19,600</td>
<td>21,320</td>
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<td><strong>Door-to-door</strong></td>
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<td><strong>TV-Shopping</strong></td>
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<td>2,950</td>
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<td>총계</td>
<td>23,340</td>
<td>25,100</td>
<td>26,200</td>
<td>4.4</td>
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</table>

100M KRW

Serving Our Best in Cosmetics
Amorepacific sales routes

• Brandshop channels are varied.
• Amorepacific wins 78% of its sales via its 34,000 door to door sellers. Next, department stores take up 17%. After that come its own-branded Aritaum stores, and finally discount hypermarkets.
• Etude & Innisfree
The most prominent mass market success story is The Face Shop. Founded in 1962 as a cosmetics wholesaler, it opened its first stores in 2003. The majority of its products were priced around Won 7,000, and its packaging and natural ingredients won plaudits.

Currently, its 740 stores retail over 1,000 own-branded products under the theme Nature Story.
• In a market dominated by two local giants and powerful international imports, The Face Shop is remarkable – it is the number four player in the market. Much of its current success is attributed to the signing of heart-throb Bae Yong-joon as an endorser.

• Indeed the overall Korean cosmetics market has been lifted by a regional wave of Korean popular culture, dubbed ‘Hallyu’ (the Korean wave; K-POP, K-Drama).
Top 10 Hit Cosmetics

- [traditional herb cream]
- [traditional herb cream]
- [페이스샵]
- [루나]
- [mask pack]
- [BB 크림]
- [Functiona l shampoo]
- [에그 팩]
- [snake cream]
- [snail moisture cream]
Conclusion

- Korean cosmetic market is growing year by year. (manufactures, imports & exports)
- Door-to-door, Department store (Sulwhasoo, Whoo) are still the best. **brandshop channel routes are trend** (Thefaceshop, Etude, Innisfree)
- **Unique cosmetics** are hits in markets. (visible capsules, Hanbang & fermentation cosmetics..)
- Natural, organic and GMO free ingredients are leaders of cosmetic ingredients. (**Propanediol** & organic extract. )
- Paraben Free & Preservative free is a cosmetic trends. (**Phenoxyethanol, Hexandiol**)
THANK YOU!

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