Post Earthquake Japan
Implications for Beauty

Daniel Bone – Presenter
Consumer Insights Director
Agenda
Quick introduction to us and then four core themes

➢ Datamonitor

➢ The earthquake

➢ Wary and anxious consumers

➢ Price conscious consumers

➢ Premium and luxury

In light of market polarization
About us
Understanding consumers, providing answers

Multiple waves of Primary consumer research spanning 20 countries across six continents
RECAPPING THE DEVASTATING EARTHQUAKE
The devastating Great East Japan Earthquake
11 March 2011: the worst crisis in Japan’s post-World War II history

9.0-magnitude earthquake

Ensuing tsunami

Devastation and new atmosphere of uncertainty

Damage ¥16-25 trillion ($210-330 billion)

Radiation leaks

Source: cdn.theatlantic.com; www.poe-news.com; Economist; www.photos.com
The devastating Great East Japan Earthquake
Markets sank throughout Asia. Consumer sentiment also dipped significantly

Consumer sentiment deteriorated at the fastest pace on record

In a tightly connected global economy, the impact was also acknowledged elsewhere

In Europe, the US and Australia, 85% anticipated an impact on their economy

Consumer sentiment diffusion index 2011

- **MARCH**
  - 42.3

- **JUNE**
  - 59.5

- **SEPTEMBER**
  - 62.4

Slowing pace at least: a good sign

Source: Boston Consulting Group; Bank of Japan/Dow Jones Business News
The devastating Great East Japan Earthquake
Reconstruction and disaster relief costs weigh on a government already laden with debt

*Public debt (% of GDP)*

Source: Economist Intelligence Unit, 2011
The devastating Great East Japan Earthquake
Impacted all industries including cosmetics. Many brands reported a 25-30% drop

Initial short-term impact on operations and on the bottom line

- 200-300 of the 40,000 stores selling its products in the country lost
- -1 one of four local factories near Tokyo had to be shut down
- -3% year-on-year decline in sales for the six-month period from April 1 to Sept 30, 2011

Strategic response from a product and marketing perspective. Showing solidarity

- Been part of the relief effort
- Deployed beauty consultants to provide support services and donate cosmetics sets to help normalize routines

Source: Straits Times, September 2011
The devastating Great East Japan Earthquake
The overall impact – both in general and for beauty – as not entirely doom laden

The economy should pick up in fiscal 2012 on reconstruction demand

Overall performance of beauty market does not appear too bad in the context

3 worst-affected areas account for less than 4% of Japan’s GDP

First five months of 2011...

-0.6% in volume sales

-2.6% in value

2010

-2.1% in value

2009

-8.0% in value

Source: Japan’s Ministry of Economy, Trade and Industry (METI)/BW Confidential; Straits Times
The devastating Great East Japan Earthquake

In summary

- A short-term negative impact on the country’s growth, derailing signs of a recovery from the GFC
- An intensified mood of austerity in the immediate aftermath.
- Not all doom and gloom. Reconstruction-driven recovery is expected going into 2012
- The beauty market is not anticipated to reach fiscal year lows of 2009
WARry AND ANXIOUS JAPANENSE CONSUMERS
Wary and anxious consumers
There remain some favorable economic fundamentals

Japan is one of the most educated, wealthy and developmentally advanced economies

- 6% of global GDP
- One of the world’s biggest exporters
- Highly skilled, literate workforce
- Spends nearly 3.5% of GDP on R&D

But has been beset by recession for much of the period since 1992

- The Nikkei Index: peaked in 1989. Since fallen 80%
- Public debt at 200% of GDP. Aging society
- Lost Decade(s) of low growth, and deflation
- Eclipsed by China as the 2nd largest world economy

Source: Images sourced from photos.com
Wary and anxious consumers

Two decades of economic malaise, political instability, a shrinking population and dispirited youths (1)...

Majorities bemoan the way things are going in Japan

25% of are satisfied with the way things are going in Japan

Stark contrast with China where consumers are riding a wave of optimism

85% of are satisfied with the way things are going in China

Source: Pew Research Center – Global Attitudes Project; Images sourced from photos.com

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Wary and anxious consumers
Two decades of economic malaise, political instability, a shrinking population and dispirited youths (2)...

The Japanese bemoan their quality of life/standard of living

Japanese consumers are less happy and more anxious than elsewhere

“Satisfied with quality of life/standard of living”

Satisfied 59%

Dissatisfied 16%

Happy

Japan: 26%

Global: 55%

Relaxed/calm

Japan: 30%

Global: 47%

Source: Datamonitor Consumer Survey, 2011
Wary and anxious consumers
Anxiety is highly anchored by the state of the economy and its implications

Japan was already suffering economically

The notion of a job-for-life is long gone as Japan’s demographic time bomb ticks

Concerned they, or somebody in your household would become unemployed in mid-2011

51%

The current economic situation is ‘somewhat bad’ or ‘very bad’

Population decline in 2010 was the worst in history
There have been more deaths than births for 4 years

Wary and anxious consumers
An unrelentingly gloomy outlook in recent decades tempers future expectations

Lack of confidence mid-year is justified. The Bank of Japan remains cautious

Lack of confidence mid-year is justified. The Bank of Japan remains cautious.

After recovering “faster than expected” in the July-September quarter...

"The recent spread of credit woes to Italy poses a grave risk to the Japanese economy”

"The Japanese economy is expected to continue facing a severe situation for the time being”

Source: Pew Research Center – Global Attitudes Project, 2011; www.boj.or.jp

17% of Japanese expect the economic situation to improve in 2011-12

84% 42%
Wary and anxious consumers
And onto those dispirited youths... ‘Soushoku danshi’: grass-eating/herbivore men = a new breed of Japanese male consumers

- Has economic stagnation rewired the Japanese male psyche? Inward and timid
- At the root of Japan's sluggish birth-rate and floundering consumer culture?

Reflects a global trend away from traditionally accepted forms of masculinity

- Less desire to live up to traditional social expectations
- Resist conventional notions of male responsibility
- Preference for quiet, uncompetitive lives. Low interest to elevate societal standing
- Not significant consumers – careful with money as they do not have much
- Contrast the he rising earning power of female peers
- Would rather pursue hobbies and physical beauty
Wary and anxious consumers
Consumers tend to remain cautious about economic futures for longer

The ‘very anxious’ rose from 25% in 2009 to 46% in September 2011

Lack optimism about financial situation = widespread consumption self-restraint

Very/somewhat nervous/anxious

March 2009: 89% 25%
September 2011: 92% 46%

66%
is the proportion of Japan's economy consumer spending accounts for

40%
intent on to reduce their discretionary spending in 2011-12. Most others say ‘no change’

Source: JWT Anxiety Index, 2011; Boston Consulting Group, 2011
Wary and anxious consumers

In summary

Negative sentiment predates the disaster. Two decades of sub-par economic was already restricting growth of Japanese personal care.

The disaster worsened the mood of the nation further, deepening their sense of crisis.

If there is one country in the world where products can be positioned as an indulgent antidote to reality, it is Japan.

Comparing Japan and China is a useful reminder that Asia is not homogenous.
ELEVATED PRICE CONSCIOUSNESS AMONG JAPANESE CONSUMERS
Price consciousness
More than a decade of deflationary pressure has had an impact

Persistent deflation means consumers are getting better value already

The more deliberate attempts made to save money have been ongoing

“I now wonder more if I am getting value-for-money as a consumer”

Japanese consumers have a ‘deflationary mentality’: if you wait long enough, prices will fall

Source: Datamonitor Consumer Survey, 2011; OECD
Price consciousness

Consumer price inflation (average %)

Most recent government reports note that “the Japanese economy is in a mild deflationary phase”

Lack of spending means prices keep falling and that encourages households to delay consumption even further

Source: Economist Intelligence Unit, 2011
Price consciousness

More than half of Japanese consumers are highly price attentive

Japanese shoppers are more attentive to changing prices than elsewhere

Highly attentive to changing prices of favoured grocery products

- Japan: 53%
- Global: 49%

They are retrenching to core criteria such as price

Finding a lower price is more important to me than buying brand names

- Agree: 42%
- Disagree: 8%

Exploring international cosmetics advertising in Japan...

"The visibility of price and information concerning new product benefits are essential for Japanese cosmetics consumers."

Source: Datamonitor Consumer Surveys, 2011, 2010
## Price consciousness

The Japanese are more price conscious in deciding what constitutes value-for-money

<table>
<thead>
<tr>
<th>Highly influential in deciding what groceries offer value for money</th>
<th>Japan</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>The product features best address your needs</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>The product is the cheapest option available</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>The product lasts longer than comparable products</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>The product is recommended by others as the best value</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>The product is often on promotion or discounted</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>The product is of superior quality compared to other brands</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>The product is offered in bulk/multi-packs</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Datamonitor Consumer Survey, 2010; Image: www.kotulas.com
Price consciousness
A higher need to show their financial status via brands exists in other Asian markets

*Gucci Chief Executive Officer...quoted in June 2011*

“We are past the moment of logo mania, parasite singles and the things that made the boom in 1990s Japan

But it’s also true the Japanese consumer is the most — or one of the most — sophisticated that exists in the world. They know everything, choose very carefully

15 years ago when they were probably much more...guided by the strength of the brand”
Price consciousness
Quick context to the slides that follow

Of the more than 2,000 cosmetic companies in Japan, only five achieve an unprompted awareness higher than 80% among consumers. Shiseido leads (88%), followed by Kanebo (86%). The brands thus form the core focus...
Price consciousness
Companies are being forced to rethink their marketing approaches: entry level lines

Shiseido’s Senka

- Shiseido’s 1st line with items <¥1,000 yen
- Low-end skincare aisle in drugstores
- More widely available across Asia in future
- Sales surpassed expectations by 20%

Kanebo Ururi

- Also <¥1,000 yen. Aim = ¥2 billion annual sales
- Sold in drugstores, large general stores and home centres
- Budget skincare users want moisturizing and a reasonable price

Both introduced to cater for the low-end of the market
But can be ‘masstige’ brands elsewhere in Asia for middle income earners
Price consciousness
Companies are being forced to rethink their marketing approaches: less fuss, less cost

“They are increasingly buying only what they really need
The divergence between high-end and low-end products is growing”

“The budget skincare market is expanding year by year.
Lotion, the largest component, continues to sell at rising levels”

Kanebo’s Freshel THE BASIC and BB Creams

- Basic skincare at a lower price than before.
  Uses the Kanebo name
- Freshel BB creams work as skin moisturizer, sun protector and light foundation
- Targets women in their 30s and 40s who tend to put off spending for themselves

Source: Nikkei Weekly, October 2011; rakuten.co.jp
Price consciousness

Companies are being forced to rethink their marketing approaches: streamlining ranges and focus on point-of-sale influence

- 50%

- Halving new product releases in Japan
- Keeping it to around 250-300 SKUs
- Anticipates significant cost saving
- Will be invested into new research for better formulations and better quality consultation

Use the following source to help guide your personal care product choices

<table>
<thead>
<tr>
<th>In-store displays</th>
<th>Spouse/partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV advertising</td>
<td>Friends/colleagues</td>
</tr>
<tr>
<td>Spouse/partner</td>
<td>In-store displays</td>
</tr>
<tr>
<td>Friends/colleagues</td>
<td>Professional in-store advice</td>
</tr>
<tr>
<td>Social media</td>
<td>TV advertising</td>
</tr>
<tr>
<td>Online communities</td>
<td>Health and fitness magazines</td>
</tr>
<tr>
<td>Professional in-store advice</td>
<td>Lifestyle magazines</td>
</tr>
<tr>
<td>Lifestyle magazines</td>
<td>Online communities</td>
</tr>
<tr>
<td>Celebrities</td>
<td>Social media</td>
</tr>
<tr>
<td>Health and fitness mags</td>
<td>Expert blogs</td>
</tr>
<tr>
<td>Expert blogs</td>
<td>Celebrities</td>
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</table>

SHISEIDO
Price consciousness
Companies are being forced to rethink their marketing approaches: market expansion

-Proportion of sales in Japan to sales abroad-

Shiseido

NOW

2017

60%

50%

Kao

Enriching lives, in harmony with nature.

-Proportion of sales in Japan to sales abroad-

Wants to increase sales in China by 15% annually

Includes “a major offensive in the Chinese market”
Price consciousness
Private labels also cater to Japanese consumers seeking entry level products

Same % disagree that private label personal care products represent good alternatives

“Private label grooming/beauty brands are good alternatives to famous name brands”

It is reflected in the market scenario and other expressed sentiment

Private label personal care penetration...

2% 15% 36%

18%

Look out for private labels sold under Rohto Pharmaceutical Co.’s HadaLabo brand in drugstores. Benefiting drugstore channel knowledge
Price consciousness

In summary

The earthquake has accelerated money saving methods under way for some time

A trend towards lower priced multi-functional products encouraged by Japan's economic problems

Famous brands are shifting brand architectures to appeal to budget conscious shoppers. Private label is on the horizon

Japanese beauty brands are embracing market diversification. Expect their competition, especially in China.
UPSCALE PERSONAL CARE
Upscale personal care
The Japanese were once celebrated for their willingness to pay for quality. This is reflected by the country’s legacy and ongoing importance in the luxury market

Still a leading market for luxury spending

An ongoing opportunity for prestige beauty BUT...

About to be eclipsed by China as consumer reign in their spend

Proportion of global luxury spending accounted for by the Japanese

- <5%
- 20%
- 25%

Upscale personal care
The Japanese see important benefits, perhaps because of their ‘beauty satisfaction’

- Feeling physically attractive is important in creating a feeling of wellbeing
  - Japan: 17% satisfied, 49% dissatisfied
  - Global: 51% satisfied, 44% dissatisfied

- Physically attractive people have greater opportunities in life
  - Japan: 17% satisfied, 49% dissatisfied
  - Global: 51% satisfied, 44% dissatisfied

Source: Datamonitor Consumer Survey, 2011
Upscale personal care

East Asia and Japan, specifically, may be at the forefront of beauty innovation, BUT consumers are less forceful in their beauty ideals

It is a myth that Japanese consumers are highly preoccupied with their appearance.

### Attach importance to looking your best in day-to-day life

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>43%</td>
</tr>
<tr>
<td>Global</td>
<td>68%</td>
</tr>
</tbody>
</table>

### Highly attentive to looking your best in day-to-day life

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<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>37%</td>
</tr>
<tr>
<td>Global</td>
<td>49%</td>
</tr>
</tbody>
</table>

Oral and personal hygiene are deemed most important

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taking care of oral health</td>
<td>68%</td>
</tr>
<tr>
<td>Maintaining good personal hygiene</td>
<td>61%</td>
</tr>
<tr>
<td>Taking care of your hair</td>
<td>54%</td>
</tr>
<tr>
<td>Taking good care of hands and nails</td>
<td>51%</td>
</tr>
<tr>
<td>Taking care of your skin</td>
<td>49%</td>
</tr>
<tr>
<td>Using fragrances to smell nice</td>
<td>22%</td>
</tr>
</tbody>
</table>

Source: Datamonitor Consumer Survey, 2011
Upscale personal care
The emotional importance of the category heavily influences premiumization

<table>
<thead>
<tr>
<th>Reasons for trading up:</th>
<th>Meaningsful technical differences</th>
<th>45%</th>
<th>66%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reasons for trading up:</th>
<th>Category is more important to me</th>
<th>34%</th>
<th>52%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Social status and image orientation are central to Japanese culture BUT

<table>
<thead>
<tr>
<th>Enhancing social recognition or status is important in creating wellbeing</th>
<th>80%</th>
<th>79%</th>
<th>73%</th>
<th>64%</th>
<th>48%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU</td>
<td>Japan</td>
<td>China</td>
<td>Korea</td>
<td>Singapore</td>
</tr>
</tbody>
</table>

Source: Boston Consulting Group, 2011; Datamonitor Consumer Survey, 2011
Upscale personal care
Famous ‘brands’ have become less aspirational. More of a ‘I’ll judge for myself mindset’

<table>
<thead>
<tr>
<th>Important in a luxury brand</th>
<th>I</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authenticity/genuineness</td>
<td>67%</td>
</tr>
<tr>
<td>High quality ingredients</td>
<td>56%</td>
</tr>
<tr>
<td>After-sales service</td>
<td>53%</td>
</tr>
<tr>
<td>Exclusivity/uniqueness</td>
<td>43%</td>
</tr>
<tr>
<td>Fashionable image</td>
<td>39%</td>
</tr>
<tr>
<td>Company’s social responsibility</td>
<td>39%</td>
</tr>
<tr>
<td>Long heritage/tradition</td>
<td>37%</td>
</tr>
<tr>
<td>Environmentally friendly</td>
<td>35%</td>
</tr>
<tr>
<td>Famous brand</td>
<td>33%</td>
</tr>
<tr>
<td>Customization/personalization benefits</td>
<td>32%</td>
</tr>
<tr>
<td>Where it is purchased from</td>
<td>32%</td>
</tr>
<tr>
<td>High price tag</td>
<td>26%</td>
</tr>
<tr>
<td>From another country/imported</td>
<td>20%</td>
</tr>
<tr>
<td>Origin</td>
<td>18%</td>
</tr>
<tr>
<td>Distinctive packaging</td>
<td>17%</td>
</tr>
<tr>
<td>Whether my friends are talking about it</td>
<td>13%</td>
</tr>
<tr>
<td>Celebrity ambassadors</td>
<td>8%</td>
</tr>
</tbody>
</table>

Japanese are particularly well informed and has a thorough knowledge of products

“They’re very attentive to all of those important variables behind a product — now much more than they could have been 15 years ago when they were probably much more…guided by the strength of the brand”

Many Japanese have begun to frown upon any form of conspicuous consumption after the disaster

Source: Datamonitor Consumer Survey, 2011
Upscale personal care

Claims that consumers deem most influential enhances willingness to pay. The word "natural" appears to be an essential criterion globally – especially in Japan

<table>
<thead>
<tr>
<th>Top 12 most enticing claims</th>
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</tr>
</thead>
<tbody>
<tr>
<td>&quot;Natural&quot; ingredients</td>
<td>&quot;Natural&quot; ingredients</td>
</tr>
<tr>
<td>No chemicals</td>
<td>Fresh</td>
</tr>
<tr>
<td>No petrochemicals</td>
<td>No chemicals</td>
</tr>
<tr>
<td>No artificial ingredients/colors</td>
<td>Pure</td>
</tr>
<tr>
<td>Fresh</td>
<td>Suitable for sensitive skin/all skin types</td>
</tr>
<tr>
<td>Suitable for sensitive skin/all skin types</td>
<td>High SPF (sun protection factor)</td>
</tr>
<tr>
<td>High SPF (sun protection factor)</td>
<td>Recommended by doctor/dermatologist</td>
</tr>
<tr>
<td>Not genetically modified</td>
<td>No animal testing</td>
</tr>
<tr>
<td>Boosts collagen production</td>
<td>No artificial ingredients/colors</td>
</tr>
<tr>
<td>Recommended by doctor/dermatologist</td>
<td>No petrochemicals</td>
</tr>
<tr>
<td>High collagen</td>
<td>High vitamins/minerals</td>
</tr>
<tr>
<td>No parabens</td>
<td>Not genetically modified</td>
</tr>
</tbody>
</table>
Upscale

In summary

Mixing hi-lo consumerism: Japanese women have become adept at using cheap products with luxury products at the same time.

A higher need to show their financial status via brands exists in other Asian markets. Upscale beauty needs to be more refined.

The Japanese are among the most inherently dissatisfied with their appearance. This will serve as a spend driver.

Be attentive to what matters to consumers. That determines their willingness to pay price premiums. Focus on natural and authenticity in Japan.
Thank You

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