

A COMPARISON OF THE JAPANESE AND KOREAN BEAUTY INDUSTRIES — TOWARD STRENGTHENING JAPAN'S INDUSTRIAL COMPETITIVENESS IN THE CONSUMER DOMAIN —

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SUMMARY

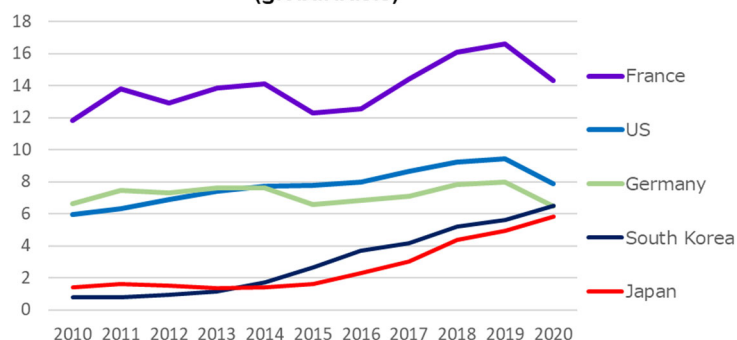
- Exports of cosmetics from Japan and South Korea have been robust over the past few years. However, the characteristics of the growth vary. Japan's exports are increasing rapidly by major brands' responding to demand growth in China. South Korea's growth is driven by the increased exports to a diverse range of overseas markets and notable growth of the country's startups.
- Factors compositely contributing to the growth of South Korea's beauty industry include policy support, the existence of strong ODM/OEM companies, increasing use of e-commerce and growth of digital marketing companies, as well as the support of individual influencers. In addition, it can be seen that South Korea is effectively using the attractiveness of its culture to promote industry, or in other words leveraging its soft power.
- In Japan, the manufacturing industry itself is making the most of the soft power derived from the strong reputation it has earned for Japanese *monozukuri* (manufacturing). Going forward, Japan could effectively strengthen its industrial competitiveness by highlighting other values such as the "health" or "healthy lifestyle of Japanese people".

TRENDS IN THE JAPANESE AND KOREAN BEAUTY INDUSTRIES

Rapid increase in exports

In recent years, cosmetics exports from Japan and South Korea have grown rapidly (Figure 1). Japan's cosmetics exports surged during the five years to 2020, increasing by 3.6 times from 2015 on a value basis. Growth in exports to China, where demand is expanding sharply, has been especially conspicuous, with the value of exports to China climbing by more than 10 times over the past five years (Figure 2). What is notable is that the value per unit of export volume is high at twice the level for South Korea and France (Figure 3), and it seems that exports are currently increasing mainly for major brand products¹.

Figure 1: Value of cosmetics product exports (global basis)



Note: Total for goods classified under HS Codes 3303, 3304, 3305 and 330720000 (harmonized system codes for traded goods).
 3303: Perfumes and toilet waters, 3304: Beauty or make-up preparations and preparations for the care of the skin, including sunscreen or suntan preparations (medicaments excluded); manicure or pedicure preparations; 3305: Preparations for use on the hair, 330720000: Personal deodorants and antiperspirants
 Source: Compiled by MGSSI based on UN Comtrade data

¹ Shiseido and other leading companies have expanded their manufacturing bases in Japan in response to increasing demand for premium "made in Japan" products in the Chinese market.

Figure 2: Value of cosmetics product exports by Japan and South Korea ^{Note 1}
(to major countries and regions in 2020)

Japan				South Korea			
Country	Value (US\$ mn)	Growth rate 2015-2020	% of total	Country	Value (US\$ mn)	Growth rate 2015-2020	% of total
China	2,931	959%	50.4%	China	3,238	200%	49.9%
Hong Kong	1,144	177%	19.7%	Hong Kong	630	0%	9.7%
South Korea	508	159%	8.7%	Japan	570	374%	8.8%
Singapore	441	278%	7.6%	US	516	133%	8.0%
Taiwan ^{Note 2}	292	1%	5.0%	Vietnam	238	374%	3.7%
US	134	25%	2.3%	Russia	211	565%	3.2%
Vietnam	90	465%	1.6%	Taiwan ^{Note 2}	144	23%	2.2%
Thailand ^{Note 3}	52	1%	0.9%	Singapore	112	88%	1.7%
Malaysia	25	58%	0.4%	Thailand ^{Note 3}	112	9%	1.7%
Russia	12	-5%	0.2%	Malaysia	75	90%	1.2%
Others	187	-	3.2%	Others	640	-	9.9%

Note 1: Total for goods classified under HS Codes 3303, 3304, 3305, and 330720000. Top 10 export destinations are listed for South Korea, and top 8 export destinations are listed for Japan in addition to Malaysia and Russia for the purpose of comparison with South Korea.

Note 2: As the database does not include values for Taiwan, the values for "Other Asia nes (not elsewhere specified)," which includes Taiwan, are used.

Note 3: Growth rates for both Japan and South Korea are based on calculations for 2016-2020.

Source: Compiled by MGSSI based on UN Comtrade data

Figure 3: Value per unit of export volume of cosmetics products

Country	Unit value (US\$/kg)	Export value (US\$ mn)	Export volume (1,000t)
Japan	43	5,816	137
South Korea	23	6,486	277
France	19	16,610	863

Note 1: For both export value and volume, figures represent totals for goods classified under HS Codes 3303, 3304, 3305, and 330720000

Note 2: Unit values calculated for Japan and South Korea based on export value and volume data for 2020, and for France based on corresponding data for 2019.

Source: Compiled by MGSSI based on UN Comtrade data

Cosmetics exports from South Korea are increasing at an even faster clip than from Japan. Exports increased year on year even in 2020, in the middle of the COVID-19 pandemic, and the value of South Korea's cosmetics exports to global markets reached a par with exports by Germany, which was the next biggest exporter after France and the US. Similar to Japan, demand in China is driving the growth and accounts for 50% of the total. However, the value of South Korea's exports to emerging countries in Southeast Asia, such as Vietnam and Thailand, is more than double the value of corresponding exports from Japan. In addition, the growth of exports to the US and Russia is also striking and is exhibiting a wide lead over Japan, with South Korea's cosmetics exports to these two countries amounting to 4 times and 17 times that of Japan, respectively.

Comparison of major companies in Japan and South Korea

While both the Japanese and South Korean beauty industries are growing, in terms of sales volume, Shiseido has an overwhelming presence among leading Japanese and South Korean companies² (Figure 4). Meanwhile, a major feature of South Korean cosmetics majors is that they tend to have large numbers of retail outlets in their export markets. Exported cosmetics are sold at department stores, beauty stores, drug stores, through e-commerce channels, etc. in the destination countries. Amorepacific has more than 600 stores overseas and LG Household & Health Care has more than 400 stores³. LG Household & Health Care, which is experiencing faster

² In terms of overseas sales, Shiseido is far ahead of other companies, especially with regard to the scale of high price range (prestige) products (Figure 4).

³ According to Euromonitor International data for 2020, the number of Amorepacific-affiliated stores worldwide, including its major store brand "Innisfree", was 2,455 (including 1,821 in South Korea), and the number of LG Household & Health Care-affiliated stores, centered on "The Face Shop", was 1,842 (including 1,401 in South Korea).

growth than other companies, has more than quintupled in terms of market capitalization over the past five years, and has grown to a size comparable to South Korean representative firms that have led the country's export industry, such as LG Electronics (under the same group) and POSCO. As of the end of July 2021, the company had the 14th largest market capitalization in the country. In Japan, there are no unlisted startups with a corporate value of more than US\$1 billion in the cosmetics field, but in South Korea, there are currently two such companies, GPclub and L&P Cosmetic⁴, which suggests there are mounting expectations for both the majors and startups in the country's beauty industry.

Figure 4: Major companies' sales and overseas retail sales values (2020)

Company		Sales (US\$ mn)		Growth rate vs 2015 ^{Note 1}	Overseas retail sales value ^{Note 4} (US\$ mn)			
					Prestige products		Mass-market products	
					Retail sales value	Growth rate vs 2015	Retail sales value	Growth rate vs 2015
Japan	Shiseido	8,629		20.7%	5,333	45.4%	1,353	10.9%
	Kosé	2,635	Note 2	34.4%	627	170.7%	73	168.7%
	Kao	5,087	Note 3	n/a	553	4.9%	2,034	10.2%
South Korea	Amorepacific	3,763		-7.0%	1,091	64.0%	866	37.2%
	LG Household & Health Care	3,785	Note 3	82.0%	824	267.2%	970	275.3%

Note 1: Calculated on a local currency basis, Note 2: For the fiscal year ended March 2021, Note 3: Sales of business divisions related to cosmetics, hair care products, etc., Note 4: Retail sales value of all prestige (high-priced) brands and mass-market (low- and mid-priced) beauty and personal care products, including skin care items, makeup, hair care products, perfumes, bath and shower products, and shaving related products. Includes products manufactured by locally acquired companies and local corporations.

Source: Compiled by MGSSI based on Bloomberg and Euromonitor International data

BACKGROUND BEHIND THE KOREAN BEAUTY'S GROWTH

The following four points can be identified as factors behind the growth of the South Korean beauty industry, where the breakthrough of startup companies is noteworthy.

Policy support

In South Korea, various support measures have been implemented for industrial promotion. Based on the Medium- to Long-term Development Plan for the Cosmetics Industry⁵ announced in 2013 and the Comprehensive Development Strategy for the Cosmetics Industry unveiled in 2017, the government has been promoting exports by companies, including small and medium-sized enterprises, by providing training for specialists to support exports, investigating the characteristics of each market, simplifying export procedures, and with other measures. In addition, the government is providing support to create leverage unique to South Korean brands. For example, when developing cosmetics and high-performance materials that make use of traditional Korean formulas, part of R&D expenses is subsidized.

Strong ODM/OEM presence

Cosmax and Kolmar Korea are leading ODM/OEM companies in the South Korean beauty industry and they have refined their technological capabilities and expanded production capabilities, making it possible for emerging brands to develop businesses based on the strength of their ideas and concepts, even though they lack manufacturing capacity. Sales growth of these top two ODM/OEM cosmetics companies over the past few years has far exceeded the growth of the top two cosmetics manufacturers (Figure 5), and the combined sales of the two companies in 2019 amounted to approximately one-fourth of the total sales of the top two manufacturers. Sales prices for OEM products are about one-fourth of finished product prices (retail prices). If calculated on a finished product basis, the top two ODM/OEM companies have a market presence approaching the production scale of the top two manufacturers.

⁴ According to "The Complete List Of Unicorn Companies" published by CB Insights (accessed July 28, 2021), GPclub has a corporate value of US\$1.3 billion and L&P Cosmetic has a corporate value of US\$1.2 billion.

⁵ Announced by the Ministry of Health and Welfare, and Ministry of Food and Drug Safety.

Figure 5: Comparison of major cosmetics manufacturers and major ODM/OEM cosmetics companies (FY 2019)

South Korea				Japan			
Company		Sales (US\$ mn)	Growth rate vs FY 2015 Note 1	Company		Sales (US\$ mn)	Growth rate vs FY 2015 Note 1
Manufacturer	Amorepacific	4,788	17%	Manufacturer	Shiseido	10,381	48%
	LG Household & Health Care ^{Note 2}	4,631	44%		Kosé	3,016	35%
ODM/OEM	Kolmar Korea	1,183	157%	ODM/OEM	Nihon Kolmar	433	74%
	Cosmax	1,142	149%		Toyo Beauty	236	34%

Note 1: Calculated on a local currency basis, Note 2: Sales and growth rate for cosmetics-related business operations

Source: Compiled by MGSSI based on Bloomberg and SPEEDA data

With the growth of ODM/OEM, the mechanisms for planning and manufacturing products that meet consumer needs in a short cycle have been refined, and various brands in an affordable price range have been introduced. In addition, many of the companies developing these emerging brands are looking to overseas markets from the startup stage, and this is contributing to the increase in South Korean exports.

The South Korean beauty industry is attracting worldwide attention for products that feature innovative concepts, such as cushion foundations and CC creams⁶, and ODM/OEM development and manufacturing capabilities are also playing a significant role in popularizing such products.

Expanding the use of e-commerce and growth of related companies

Use of the Internet and social media platforms was quick to spread in South Korea, compared with other developed countries, and now use of e-commerce is also expanding for cosmetics purchases (Figure 6). The percentage of skin care products sold through e-commerce channels exceeded 30% in 2020, which is level with the percentage of skin care products sold through all brick-and-mortar stores. Globally, the e-commerce sales percentage of cosmetics in South Korea is the second highest level after China. The growth of indie brands is also being promoted through the use of e-commerce as a sales channel.

Figure 6: Share of skin care products by sales channel (2020, %)

	Japan	South Korea
Total for physical stores	73.0	38.3
Beauty stores	16.9	12.0
Department stores	14.8	8.6
Drug stores/Pharmacies	25.1	15.9
General merchandisers, Supermarkets, etc.	16.2	1.8
E-commerce	14.5	33.4
Direct selling	10.2	18.2
Other	2.3	10.1

Source: Compiled by MGSSI based on Euromonitor International data

With the advancement of digitalization of the domestic consumer market, companies that are enjoying growth have adapted to it and companies that support cross-border digital marketing are also enjoying growth. Companies that are also thriving include those who have e-commerce sites targeting not only domestic customers but also overseas customers, and enterprise EC solution companies that connect domestic cosmetics manufacturers with overseas retailers to support exports (Figure 7). South Korean products are being sold through comprehensive e-commerce sites existing in each country, as well as via sites specializing in Korean beauty and lifestyles set up in multiple countries by Korean business operators which are helping to promote exports of South Korean cosmetics, including the brands of small and medium-sized companies.

⁶ Cushion foundation: A compact foundation product made by impregnating a sponge with liquid foundation or beauty serum. CC cream: A cosmetic base to make skin look better. Abbreviation for color control cream or color correcting cream.

Figure 7: Examples of e-commerce related companies in the cosmetics industry

Head office location	Company	Year founded	Business overview
South Korea	Unpa(LYCL)	2011	Operates a cosmetics review site "unpa.me" and an influencer network "palett.me". Also develops its own skin care brand "Unpa". Cosmetics based on data analytics, and strengthens exports of the brand products. Beiersdorf of Germany acquired approximately 25% of the company's shares in December 2019.
	Memebox (MBX)	2012	Operates a subscription-type e-commerce site that sells cosmetics, baby care products, etc. to registrants. Has operations in South Korea, China, the US, and Southeast Asia. Through a partnership with France's Sephora, the company has jointly developed and is selling the "Kaja" brand in the US. In the US business magazine Fast Company's list of The World's Most Innovative Companies 2019, the company was ranked ninth in the beauty sector.
	JOLSE	2013	Operates an e-commerce site for Korean Beauty and can ship to more than 100 countries around the world.
	B2LiNK	2014	Operates a B2B e-commerce site "umma" that supports the export of cosmetics, and sells Korean beauty products to more than 350 retailers around the world. The company is strong in data analytics and supports corporate marketing. Has branch offices in the US, China, Vietnam, and other countries.
	DMIL	2017	Manages beauty influencers and produces content. The company has conducted marketing campaigns for approximately 500 brands in South Korea and overseas, and has recorded more than 500 million views. In addition to its beauty MCN (Multi Channel Network) activities, it also operates the e-commerce site "dVine" and its own brand site "Hours".
US	Soko Glam	2012	Operates an e-commerce site specializing in Korean beauty in the US. In addition to sales, the company also offers other services such as live chat-based beauty consultations through its Skin Concierge program.
	Peach and Lily	2012	Handles online sales of Korean beauty products from its own brands as well as those of other companies.

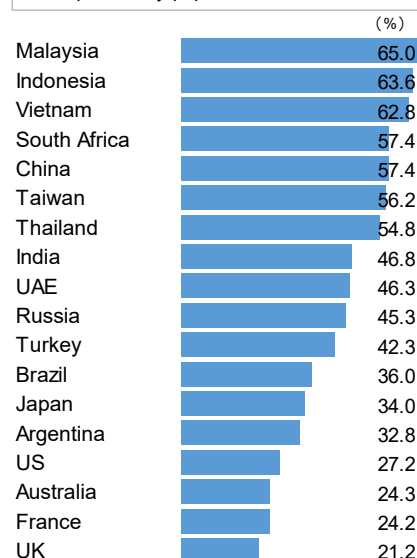
Source: Compiled by MGSSI based on Quid and Crunchbase data, and information on the websites of various companies

Boost provided by individual influencers

In addition to these trends, the emergence of individual influencers who widely disseminate information about Korean skin care practices and fashion through social media and other means in many countries is also contributing to the growth of the South Korean beauty industry. Moreover, the number Korean culture and pop culture fans are growing in various regions of the world due to the influence of K-POP and K-Drama, and this has underpinned the persuasive power of influencers who support South Korea. According to the Korea Foundation, the total number of Hallyu (Korean Wave)-related fan club members in the world topped 100 million in 2020, and in North America, the number climbed 30% from the previous year to approximately 16 million. South Korean cosmetics are called K-Beauty and while they are especially popular in Asia (Figure 8), they have also gained a certain degree of popularity in the US and the UK.

Figure 8: Popularity of K-Beauty

In response to the question, "How popular do you think Korean beauty is in your country at the moment," the percentage of respondents who replied "very popular."



Note: The survey was conducted online in November 2020, covering 8,500 people age 15 to 50.

Source: Statista database, with data sourced from the Korean Foundation for International Cultural Exchange and the South Korean Ministry of Culture, Sports, and Tourism

SOFT POWER HOLDS THE KEY

South Korea's strong focus on export promotion

The effect of "Hallyu marketing" that the country has promoted as a nation can be seen in the strengthened presence of the South Korean beauty industry overseas. Samsung Economic Research Institute explains the marketing in four stages. In the first stage, consumers are exposed to South Korean music and TV dramas and

develop a liking for the featured celebrities; in the second stage, they buy related products such as DVDs; in the third stage, people begin to choose South Korean products, such as home appliances and daily necessities; and in the fourth stage, they become a fan of Korea itself⁷. This idea bears comparison with the concept of soft power advocated by Joseph Nye. Nye describes soft power as “the ability to affect others to obtain the outcomes one wants through attraction and persuasion rather than coercion or payment. A country’s soft power rests on its resources of culture, values and policies.”⁸ Although a shared approach of the US and South Korea is that they both try to promote the attractiveness of their respective cultures through TV dramas, movies and music, the US has designated the “desired outcome” to be its influence in international politics. South Korea, on the other hand, is targeting export promotion and utilizing soft power in its industrial activities of selling goods and services.

Japan’s soft power has been created by the manufacturing industry itself

Japan’s manufacturing industry has not used soft power to drive exports and overseas business development in the way pursued by the US and South Korea. Rather, Japan has been successful as a major exporter, and its manufacturing industry itself has been producing soft power as a result of the strong reputation it has earned for high product quality, operational stability, manufacturing efficiency, and other *monozukuri* abilities. Many Japanese products share the image of being high-tech, high performing, and highly reliable (Figure 9), which can be interpreted as the soft power that is supporting current exports by the country. In the skin care field, the products made in Japan are considered outstanding in terms of the functional ingredients they contain and the consistency of quality. Another strength is the credibility of product safety and reliability that has been cultivated by Japanese *monozukuri* as a whole. Given the fact that reliability is part of the industry’s strength, it can be said that Japan’s beauty industry has unknowingly made use of the soft power of the manufacturing industry.

Figure 9: Foreign impressions of products made in Japan, South Korea, and China

Question: When you hear a product was made in Japan, South Korea, or China, what sort of image do you get? (multiple answers allowed from multiple choices)

Rank	Made in Japan	Made in S.Korea	Made in China
1	High-tech	High-tech	Simple
2	High performance	Popular	Familiar
3	Reliable	Fashionable	Popular

Note: The survey was conducted online, covering 6,600 men and women age 20 - 59 (middle income and above) in 20 countries and regions in Asia, Europe, and the US. The survey was conducted from December 2018 to January 2019 by Video Research Ltd.
Source: "Japan Brand Survey 2019" conducted by Dentsu

Soft power of Japanese industries envisioned

In order for Japan to enhance its international competitiveness, industries should make more conscious use of this soft power in the future. Many Japanese cosmetics-related companies have only recently started to address foreign needs due to rising demand in China and because domestic market growth is slowing down. It is important to further strengthen the soft power cultivated so far through *monozukuri* toward achieving the globalization of not just some of the cosmetics majors but the entire industry. Concrete measures to this end include strengthening evidence-based functional materials, and bolstering technical and development capabilities, such as for original materials developed from a sustainable perspective.

Over the longer term, it would be effective for Japan to develop and utilize other types of soft power to strengthen its competitiveness. As for the Japanese elements that could serve as such power, there are many areas in

⁷ Midok Kim, “Naze Kankoku Kigyō wa Sekai de Kateru No Ka” (How Do South Korean Companies Win on the Global Stage?) (PHP Institute, 2011)

⁸ Joseph S. Nye, “Soft Power: The Means To Success In World Politics” (Japanese-language translation, published by the Nihon Keizai Shimbun, 2004)

which Japan has a positive image internationally, such as those derived from the country's rich natural environment and food culture. Of those, "health" is a shared value that can be leveraged by various consumer industries including cosmetics. Japan boasts the world's leading health indicators in terms of life expectancy, obesity rate, and mortality rate from preventable causes. Japan should pursue marketing and business development by publicizing such facts more effectively and building a strong brand image. To that end, it will be effective to develop business through the collaboration and integration of companies in multiple fields that are not bound by an existing framework. Specifically, this means collaborations in the fields of food, pharmaceuticals, apparel, sports, distribution/services, etc. and the formation of consortiums that can serve to enhance the PR and sales capabilities of companies in the same industry. It can be expected that soft power itself will become even stronger as many companies in the consumer domain collaborate to leverage its capabilities.

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