

## Indonesia

## Locked down

Indonesia has been hit hard by a surge in COVID-19 infections this year and the strict lockdowns put into place to contain the pandemic *by Sophie Douez*

After several years of growth, the Indonesian economy contracted 2.1% in 2020, a downturn that was smaller than other countries in Asia Pacific, according to the IMF. As such, the outlook for 2021 was initially hopeful. However, with just 5% of Indonesia's almost 280 million population fully vaccinated as of June, the country was rocked mid-year by the fast-spreading Delta variant, with the government forced to lockdown Java—the country's biggest island—and Bali. Stay-at-home measures have heavily impacted the beauty industry, as department stores and roadside self-select stores were shut and the underdeveloped e-commerce ecosystem was—at least initially—unable to pick up the slack to the same extent as elsewhere. "Indonesia has absolutely been impacted in terms of retail traffic. The rise of online has helped it but cannot compensate for it," comments distribution company Luxasia Group CEO Dr Wolfgang Baier.

#### Adding value online

Amorepacific Indonesia General Manager Eunsan Jeong says the company expects offline sales—department stores and boutiques—to report a decline of -11% in 2021 compared to last year. He adds that while online beauty sales have surged over the past year, the channel remains highly promotional. As such, he underlines how important it is for brands to elevate their online experiences with tools, such as virtual try-on or online consultations, while also providing compelling differentiation in physical outlets to encourage people to return to buying.



▲ Marc Jacobs' Perfect pop-up at Sogo Central Park, Jakarta. Indonesia has traditionally been a strong fragrance market (*photo: Luxasia*)

"Online shoppers [in Southeast Asia] are mostly customers who have been interested in the brand before," adds Kao Corporation ASEAN Area Leader Global Business, Cosmetics Business Kenichi Ide. "By linking dedicated, value-added brand content with online shopping functions, we aim to build brand loyalty and increase the share of returning customers."

The combination of Indonesia's young population and sprawling geography that limits the opportunity for physical retail makes the market ripe for online development. Clarins President Asia Pacific Frédéric Cohen says that in Indonesia, the

brand has put a strong focus on its digital and DTC strategy. "Department stores are having a difficult time adapting due to limited innovation. Brands are progressively shifting towards standalone businesses," comments Cohen. "E-commerce is accelerating its growth momentum, mainly through marketplaces."

Amorepacific's Jeong says the surge in online beauty sales has delivered new, younger customers to the premium skincare category. Whereas the 27-40 age bracket was previously the biggest online customer target group due to their higher spending power, at-home seclusion and the recession

has seen this group overtaken by the 18-25 year olds.

“These people have more purchasing power since their living costs are still borne by their parents and they still receive money from either their parents or from their salary,” comments Jeong. “This phenomenon has been changing the potential of skincare customers by demographics.”

In the prestige segment, Jeong says Sulwhasoo increased its market share by 2.7% despite slower growth overall in the segment.

“Although imported products became more expensive, the competitive landscape did not dramatically change,” he says. “The quality and effect of premium and luxury products are usually superior to those of mass brands, which means that many high-income consumers are unwilling to change to other products just because of higher prices.”

### On the lookout for local brands

As Indonesians increasingly search online for product and ingredient information, the market for local skincare and Halal positioned brands has strengthened.

Demand for K-beauty also remains strong—Jeong says Amorepacific has increased its share of the skincare market by 0.8%—resulting in greater acceptance of multiple-step beauty routines. This has also offered opportunities for J-beauty brands, which have entered the market in droves over the past two years, according to Asia Cosme Bio Senior Project Manager Heloise Lefebvre du Prey.

“The more prestige positioning of the J-beauty brands has contributed to the development of a real interest in skincare; three or four years ago, we were seeing two-step routines, whereas today it is several steps with toners, serums and a very good knowledge of the ingredients,” comments Lefebvre du Prey.

Indonesians’ thirst for ingredient information has been boosted by the introduction in 2019 of laws that cosmetics be certified Halal by 2026. Local

independent Halal brands are also growing due to their lower price positioning, digital-native approach, and the reassurance the certification offers consumers in terms of the manufacturing process and ingredients used. Online retailer Shopee Regional Managing Director Ian Ho says demand for Halal beauty products grew 2.5 times on Shopee Indonesia in 2020.

“In the past year we saw well-known



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Clarins President Asia Pacific Frédéric Cohen

Halal beauty brands like Wardah, Scarlett Whitening, and Emina emerging among the top-10 beauty brands bought by Muslim fashion shoppers in Indonesia,” says Ho.

Local brands like Wardah are also notable in the make-up segment for launching dual-purpose products that offer benefits such as non-transferable and permeable, says Lefebvre du Prey.

“Halal is becoming a bit like the vegan, natural, clean trend has become in the West. There is a need for reassurance with products that are cleaner, and an understanding of the ingredients that people put on their skin,” says Lefebvre du Prey. “In make-up, what works are products that are hybrid or speak to a specific benefit. We are seeing a lot of small brands start to launch quite a few hybrid products with a skincare benefit.”

Traditionally a strong fragrance market, Luxasia’s Baier says niche fragrance brands — both high-end global brands and lower priced startups—are also gaining in popularity in Indonesia as consumers have increasingly searched brand information online.

### Reduced spend

With the pandemic situation expected to remain acute for Indonesia, reduced spending power is all but certain to continue to force Indonesians to trade down on products and brands, resulting in the lower-priced local brands making gains. However, prestige players point to opportunities online, and the pampering, selfcare and anti-age skincare segments as bright spots.

“Anti-aging and brightening are still of strong concern in Indonesia,” comments Jeong. “Despite the market struggling, these category sales have been growing.” However, Euromonitor notes that after years of double-digit growth, premium skincare recorded only modest value growth in 2020 as consumers migrated to mass brands or reduced their purchases to save money.

Euromonitor International had predicted that Indonesia’s total beauty and personal-care market would grow 5.5% to \$6.49bn in 2021 over 2020. But the extent to which this forecast will be pulled down by the surge of COVID-19 in the country this year and the devastation the virus has wreaked remains to be seen. ■

### Indonesia beauty & personal-care market estimated CAGR 2020-2025

Category	Estimated CAGR 2020-2025 %
Skincare	+12.6
Color cosmetics	+12.7
Fragrance	+3.7

Source: Euromonitor International

## Thailand

## Online on the up

Without tourists and having been hit harder this year by COVID-19 than in 2020, the situation in Thailand remains tough, although online sales offer some bright spots *by Sophie Douez*

Having weathered the first pandemic wave relatively well compared to some of its neighbors, Thailand buckled in 2021 as the COVID-19 Delta variant forced Bangkok and surrounds into a new round of lockdowns in June.

In a country where tourism accounts for one fifth of total GDP and 20% of employment according to the IMF, the government downgraded its economic growth forecast for 2021 to 1.5% - 2.5% in May, with unemployment hitting a 12-year high shortly afterwards.

The lack of international tourists, coupled with the general economic slowdown—Thailand's economy contracted 6.1% in 2020—has taken its toll on the prestige beauty market. Clarins President Asia Pacific Frédéric Cohen notes total fragrance and cosmetics sales in Thailand declined an estimated -12% in 2020 compared to 2019, according to Beaute Research. Skincare declined -9.7%, make-up fell by -22.4%, while fragrance grew 2.1%.

"Thai consumers have adopted a conservative approach to their spending and consumption habits," comments Cohen. "There is a noticeable impact on both channel mix and basket size. The current [June] wave of COVID-19 is having a greater impact on the market and on consumption."

#### E-commerce ecosystem

Despite the gloom, there are some bright spots. Although physical retailing has been hit hard by lockdowns, the beauty market has been propped up by a well-developed and diverse e-commerce ecosystem which is notably supported by a strong network of home delivery options. Cohen notes that department stores have "resisted well"

thanks their adoption of digital in the years before the pandemic.

"Online is exploding. You see a lot of livestreaming. There is Facebook Live, and Line is also a big platform there. There is a lot of social commerce and online interaction developing in Thailand," comments Luxasia Group CEO Dr Wolfgang Baier. "Thailand has a very good online infrastructure, but it is important to bear in mind that it is the most competitive online market in Southeast Asia by far."

Southeast Asian online marketplace

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Luxasia Group CEO Dr Wolfgang Baier

Shopee Regional Managing Director Ian Ho says the pandemic caused a major shift in consumers moving online to search for authentic prestige beauty brands across the region. In response, the platform launched Shopee Premium in October 2020 in several markets, including Thailand, which Ho says has a larger base of premium buyers compared to some other markets in the region.

"These premium buyers tend to be slightly

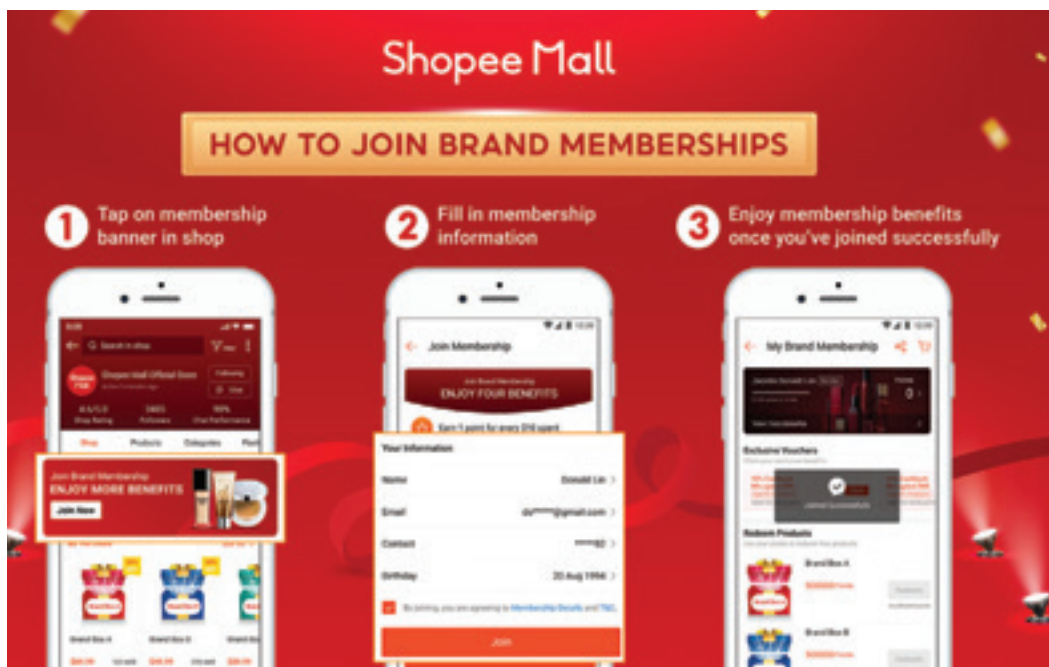
older (+25 years old), and the majority reside in the outer cities where the physical stores might be lacking," says Ho. "Since launching [Shopee Premium], 70% [of buyers] have been new premium buyers, signaling the huge potential for premium beauty brands to reach more Southeast Asian shoppers."

Amorepacific Thailand General Manager Jeongho Choi says the company has taken a test-and-learn approach to e-commerce, including trialing livestreaming on social media, and small, directly managed online shops on Line and Chat&Shop, while also investing heavily in pure players like Lazada and Shopee. As a result, Amorepacific has seen a 9% increase in the share of sales generated online since the pandemic, to reach an overall share of 30%.

"Sulwhasoo used to be highly dependent on department stores, centered on high-end products but through successful expansion into digital channels, the brand has been able to grow online and reach more diverse groups of consumers, including those that are relatively younger than its main middle-aged, middle class consumers," comments Choi.

#### Brick-and-mortar moves

In addition to online, Thailand's specialty-multi beauty retail environment has bloomed in recent years. Alongside Sephora, local players like Beautrium, KIS and Eve and Boy have steadily carved out market share both in the physical space and online. Eve and Boy, for example, which began by targeting a local clientele with savvy social-media marketing and an extensive mass product offer housed in cheaper, off-the-high-street locations, today boasts 2.11 million followers on



◀ Online player Shopee launched Shopee Premium in October 2020 in several markets in Southeast Asia, including Thailand, which is said to have a larger base of premium buyers compared to some other countries in the region

Facebook and 1.2 million on Instagram. Its success has seen it recently add a slew of prestige brands, such as Estée Lauder, Kiehl’s, MAC, Sulwhasoo, and Laura Mercier to its offer, as well as opening a storefront on e-commerce site Lazada.

“Eve and Boy are very connected with the locals; they can feel the pulse of what the locals want,” comments distribution company Bluebell Managing Director Southeast Asia Nelly Ngadiman. “When you see the way they are using social media, it is totally different [to international competitors like Sephora]; it is very localized and that is what makes it very successful. [Thais] want a retailer that understands them, that’s very important. In the future, understanding the local market is the way to go.”

Another feature of the multi-brand retail environment has been the recent development of ‘sachet beauty’, micro-format products sold in 3g sachets, notes Asia Cosme Lab Senior Project Manager Heloise Lefebvre du Prey.

“Even in make-up, all the brands which launched a product two years ago are now bringing out the same product in 3g format, which is very inexpensive, easy to use, and enables consumers to test lots of products,” says Lefebvre du Prey.

### The outlook

According to market-research company Euromonitor International, the total beauty and personal-care market in Thailand is

expected to see growth of 1.6% in 2021 to reach \$2.53bn. Euromonitor states that premium skincare in Thailand is forecast to see CAGR of 3.8% between 2020 and 2025. Local and Korean skincare brands especially, continue to do well in the country, and 2020 also saw an uptick in demand for dermocosmetic skincare.

Research conducted by the Hong Kong Trade Development Council (HKTDC) of consumers in Bangkok and Chang Mai from April to September last year, found a shift in priorities towards a holistic approach to health and the environment, with demand for specialist and natural beauty products on the rise. As elsewhere, Thai premium beauty consumers are increasingly demanding transparency about products and ingredients.

“Brands can command higher prices if they target the premium and specialty sector, offering natural and organic skincare, make-up and haircare,” the HKTDC said.

The HKTDC research also found that younger Thais are interested in smaller, unknown brands, and look to explore new brands and products that may not be available where they live. Most female respondents interviewed said that they had bought cosmetics from new brands on social-media channels.

“In the past, newly established brands faced a remarkably high barrier to entry into the offline beauty market, particularly department stores,” comments

Amorepacific’s Choi. “But the current digital transformation trend in retail channels is providing new brands an opportunity to grow into global leading brands. Our brands are also striving to strengthen their presence in the market with their innovative products and their services.”

By any reading, 2020 promises to be another tough year economically in Thailand.

While the government hopes to have 70% of its 70 million citizens vaccinated by the end of the year, in June it had managed to vaccinate just 4%. So while international borders may begin to open up elsewhere, many countries are likely to continue to advise their citizens to stay away from the tourist destination, ensuring the challenges for prestige beauty players in the country will continue for some time yet. ■

### Thailand beauty & personal-care market estimated CAGR 2020-2025

Category	Estimated CAGR 2020-2025 %
Skincare	+11.8
Color cosmetics	+6.6
Fragrance	+4.8

Source: Euromonitor International



## Malaysia

## Retail challenges

Lockdowns have resulted in steep declines in beauty sales and taken their toll on the country's department stores *by Sophie Douez*

Malaysia has benefited in the past from the combined effects of tourism and the higher purchasing power of its citizens compared to its neighbors; however, the pandemic delivered a significant shock to the country's prestige beauty market.

Heavily reliant on department stores, beauty chains such as Sephora and branded boutiques located in malls in metropolitan areas, the market has suffered from rolling lockdowns, which resulted in a -31% decline in prestige beauty in 2020 compared to 2019, with the market reaching RM1.142bn (\$270m), according to Beaute Research.

"Store traffic has decreased by about 50% and we are not seeing the loss in brick-and-mortar stores reflected in the increase in e-commerce sales," comments Amorepacific Malaysia General Manager Margaret Chin, adding that according to Beaute Research, in 2020, department stores and freestanding stores combined declined -37%, multi-brand stores declined -44%, while e-commerce grew +255% compared to 2019.

Anti-aging products, which account for 48% of the skincare category, fell -23%, sales of lip make-up products declined -57%, while eye make-up sales dropped -47%, but increased their overall share of the category due to the focus on using brow liners and eyeliner to accentuate eyes above the mask, comments Chin.

### Covid impact

Clarins President Asia Pacific Frédéric Cohen says Malaysia is one of the most heavily impacted markets in the region, with make-up and skincare declining -50% and -30% respectively. Fragrances, however, have weathered the storm better

with a decline of just 6.9%.

"Fear coupled with movement restrictions are having a negative impact on consumer confidence and local consumption. The trend is worsening with the repeated lockdowns [which have continued this year]," comments Cohen. "Department stores is the distribution channel suffering the most (-49% in 2020), with greater impact on those relying on tourist sales and their inability to embrace digital transformation."

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*Unilever Malaysia and Singapore General Manager Marcos Nakagawa*

compounded by a surge in unemployment, which stood at 4.8% in the first quarter of 2021, up from 3.2% in the fourth quarter of 2019 and which has forced consumers to trade down as they become more price-sensitive and value driven. Unilever Malaysia and Singapore General Manager

Marcos Nakagawa notes that while the total beauty and personal-care market is showing growth this year, consumer purchases of discretionary products, such as facial moisturizer and make-up, remain challenged.

"Economic polarization is becoming more prominent as higher-income consumers invest more in more selective products to pamper and self-care, while lower-income consumers are trading down to cheaper brands," comments Nakagawa.

### Lazada & Shopee invest

A small percentage of the beauty market before the pandemic, e-commerce has boomed since the outbreak of COVID-19, with players such as Lazada and Shopee significantly increasing investments to grow the business. Chin says Amorepacific has strengthened its partnerships with key online players and has seen online sales grow two to three times for many of its brands since mid-2020, a trend that is expected to continue in 2021 and beyond.

The company signed a Memorandum of Understanding (MOU) earlier this year with Shopee to strengthen its regional partnership and accelerate the growth of K-beauty in the online beauty category in Southeast Asia.

"For e-commerce, we have doubled our business versus 2019, and in the first half of 2021 we continued our growth trend. Innisfree and Laneige are in the top-five rankings for beauty in Lazada, and Sulwhasoo is in the top 10. In Shopee, our brands are in the top 10," comments Chin. "It is very competitive as all the top-tiered brands are ramping up spending to drive topline in these two leading platforms."

Shopee Regional Managing Director Ian



Amorepacific signed a memorandum of understanding earlier this year with Shopee to boost its presence in the region

Ho says the company has invested heavily in expanding warehouse and logistics facilities to support brands and improve delivery efficiency across Southeast Asia. The company has introduced a range of online features, including in-app games, livestreaming (Shopee Live), Shopee Premium and a Beauty Club program localized to each market.

“We are piloting new mechanics to attract new users onto [Shopee Premium],” says Ho. “This includes pre-sale activities where shoppers can pay a deposit for products that they are keen to buy before launch to get additional gifts and exclusive deals, as well as surprise brand boxes to let shoppers sample new products.”

### Independents emerge

Meanwhile, the squeeze on spending power coupled with the rise in online sales is leading to stronger interest in independent brands, especially in areas outside the major cities where e-commerce fills the gap left by traditional retail. Asia Cosme Lab Senior Project Manager Héloïse Lefebvre du Prey says Malaysia’s beauty brand landscape is experiencing a concerted push from Korean and Japanese brands, while long-term players in the market like Maybelline have shifted their communications to speak more directly to the country’s multicultural clientele. Beauty brands in Malaysia are also beginning to claim sustainable benefits such as ‘no waste’ or ‘handmade’, she notes.

“The rise of e-commerce has led to the birth of more independent brands; these brands tend to play to in the sustainable,

natural and personalization space,” comments Unilever Malaysia and Singapore Marketing Director Beauty and Personal Care Lenny Chuah. “Having said that, big brands still have the advantage on scale, established distribution network and R&D to stay relevant and competitive.”

Conditions are expected to remain challenging in Malaysia’s beauty market for the remainder of the year. Euromonitor International forecasts that the total beauty and personal care market will decline 0.9% in 2021 to reach an estimated \$6.18bn. The company says the market’s overall performance will continue to be driven by the mass segment, while premium products, despite quickly recovering in value terms as restrictions are relaxed and consumers return to department stores and beauty specialists, will continue to lose share overall.

However, the IMF forecasts Malaysia will see GDP growth of 6.5% for this year on the back of a recovery in manufacturing and construction and higher vaccination rates (the government is targeting having 80% of its population vaccinated by the third quarter). Industry players say they are confident about prospects for the coming year, with online sales continuing to show solid gains and physical retailers pivoting to omni-channel strategies.

“We believe the offline business will grow again post pandemic and our strength is in trained front liners in each store to drive the best customer service,” comments Amorepacific’s Chin. “More and more we will have omni-channel strategies in order to increase our share and also recruit more

new users.”

Unilever’s Chuah says the company expects a strong recovery in discretionary products as the economy reopens and consumers can resume social activities.

“The focus on health and well-being will stay, while channel shifts will continue, with more penetration of e-commerce and proximity stores,” adds Chuah. ■

### Malaysia prestige beauty market 2020

Category	Sales \$m	% change 2020 /2019	Category share %
Skincare	144	-23	53
Fragrance	66	-27	25
Make-up	60	-51	22
<b>Total market</b>	<b>270</b>	<b>-31</b>	<b>100</b>

Source: Beaute Research

### Malaysia beauty & personal-care market estimated CAGR 2020-2025

Category	Estimated CAGR 2020-2025 %
Skincare	+4.7
Color cosmetics	+3.6
Fragrance	+4.5

Source: Euromonitor International