



## *NE/SE Asia*

The world's fastest growing, lucrative  
natural skincare and cosmetics  
market.



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## Introduction: Asian Markets are Challenging but the Rewards are Spectacular

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In 1939, the movie classic, “Wizard of Oz: was released. One of the most famous scenes has Dorothy turn to her little dog and say, “Toto, I don’t think we’re in Kansas anymore!” No truer words could ever have been said especially for SME’s entering Asian markets. Yet, unlike Dorothy, many have been there before, and have learned a lot. What we have learned is this; companies regardless of size, wealth, or industry all face similar challenges. And just like Dorothy, who got the help from her friends, companies entering Asia need to get assistance from knowledge and experience of others.

The advice given to Dorothy and Toto was to follow the yellow brick road. Dorothy did exactly that. She met and overcame all kinds of challenges. She reached her goal – and you can too.

### *The Challenges*

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Below is a brief look at some of the challenges that you’ll likely meet on your road to success.

#### *Legal, Economic and Political*

Asian countries operate under their own legal systems. Laws can be vague and, in some instances and situations, may not even exist. If not, lawmakers will make them up in which case court decisions are usually in favour of the home side. Its far better to come to an agreement outside of court and Asian companies know this. Usually, it is the western company that initiates legal proceedings. Nevertheless, it is crucial to know what country’s laws will be applied to contracts and under who’s system disputes will be heard. Going to court should be the last resort for both parties.

There will be the challenges of economic risk. A country could impose higher taxes on products pricing you out of the market. Or prevent in-country profits earned being sent home. Another challenge could be in getting paid. This is top concern for SME’s. Export Development Canada (EDC) for instance, is an excellent resource in this regard. They have programs that help you to get paid or avoid this kind of situation.

There is always the chance of political risk. Such actions could range from expropriation of company assets to changes in the attitude of a government towards foreign businesses. These “uncontrollable” are rarely taken as virtually all nations rely on global trade to fuel their economies. Most common, however, are trade disputes which affect tariffs or a company’s access to markets. Unfortunately, tariffs beget tariffs. Nobody wins in a trade war. It may look like it, but it isn’t. A final example is when a nation needs a technology to grow its economy, or a political party wants an advantage of some kind. This is often seen when a government allows a company to operate legally in exchange for intellectual property rights and technology.

### [Culture eats strategy for breakfast – Harvard Business School](#)

Business history has shown that over 90% of business failures in Asia are the direct result of cross - cultural mistakes and misunderstandings. One of the underlying reasons, is the Self Reference Criteria. This is a person’s unconscious reference to their own culture, values, experiences, and knowledge. Especially, when making decisions and interacting with others. This is understandable considering that on the surface, Asia looks like here with a MacDonald’s and Starbucks on every corner. What’s more is that businesses everywhere seek to earn the highest profits with the best terms and conditions. The fatal belief being that doing business in Asia is not much different than doing business here.

Asian society, culture, values, way of thinking, even their approaches to problem solving is virtually opposite to North America. In Western societies problem solving is based on the scientific method. Its goal being to explain the world we live in and even life itself in terms of systems, categories, and processes. Objects, thinking styles, nature, and events are labelled and placed in categories for examination. Western thinking can be described as logical and linear. Progressing in a straight line to arrive at a specific conclusion.

Asian think is founded upon the teachings of Buddha, Confucius, Taoism. Which teaches that an infinite number of variables are in play at the same time. What is happening at a specific time can change quickly as circumstances and situations continually change. For instance, Asian business partners will at times suddenly want to make changes to an

agreement. Simply because the circumstance or situation have changed since signing the agreement.

In western societies emphasis is placed on the individual. Notions such as “what’s in it for me” and “the stand-alone rugged individual” would be unheard of Asian societies. The online women’s magazine “Self” originated in the USA, and not in Asia.

Asian society is centered on relationships. This encompasses the company, ancestral clan, school, and of course, family. To this day my Korean mother-in-law goes shopping in China twice each year with her girlfriends from elementary school.

Business customs and practices vary as well. Knowing simple things like name order, the appropriate way of giving and taking business cards, table manners and how to properly address an executive are essential to success. Learning all these nuances can seem insurmountable, but with proper preparation and planning you will soon be able to confidently navigate your way around in Asia.

## Communication Barriers

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Communicating with anyone, even your spouse or kids can be a challenge. Yet communicating with Asians puts an entirely new spin on the word. Not only are there the spoken and written language aspects, but SME's also need to be aware of the nonverbals as well. However, like in any well thought out communication strategy the simpler and easier the message, the greater the chance it will be understood. And, with regards to nonverbal communications, the best advice is to quietly observe and stay calm.

### *Written and Spoken*

Contrary to popular belief, English is not widely spoken across Asia. It is taught in schools and can be read to a limited degree, but for the majority Asians, that's about it. As a result, English marketing messages need to be simple, accurate, and easy to understand. This applies to visual and verbal communication just as much as it does to the written word. Translations of English slogans, phrases and product descriptions need to be translated back and forth numerous times. This is to check for accuracy in meaning and to avoid negative inferences that could seem insulting, disrespectful, or inappropriate within the culture. One example of culturally insensitivity was the [Dolce & Gabbana ad campaign](#) in China that caused many retailers to drop the label.

### *Non-verbal Communications*

Familiarity with non- verbal communication gives a SME's significant advantages that few other western companies have. Each Asian culture has its' own preferences and ways of showing / interpreting non-verbal communication. Broadly speaking, Asians prefer greater physical distances between speakers, and avoid direct eye contact. They also place more emphasis on facial expressions and body language. Outward displays of emotions such as anger or frustration is typically seen as being weak and not being in control. Westerners are known to show more emotions which to Asians can signal an opportunity to press for concessions. The ability to appear calm and in control is a skill highly valued on both sides of the table.

## Understanding Your Consumer

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Each country has its own idea of what makes a woman beautiful. This varies according to a culture's preference for the shape of the eyes, lips, height, weight, and figure. What is consistent however, is that a woman's beauty must include beautiful skin. Ideally, skin that looks and feels clean, smooth, clear, and youthful.

To achieve this, more and more Asian women are actively seeking smaller, independent natural brands. The presumption is that these brands contain authentic, high quality natural ingredients and are formulated with the individual in mind. They are willing to pay more if they can trust the brand to address specific skin problems. Many of these problems they believe are unique to their circumstances and local environment.

In western society, especially in North America, the focus is on the individual. Cosmetic advertising typically centers around the individual. Photos will often feature a woman by herself, enjoying nature away from the city and job. In Asian society, the focus is on the collective or group. A person's identification is defined by others i.e., family, school, work mates. It is essential to fit in, follow trends and do as others do. Advertising shows women enjoying time with their friends, family, or handsome young man. It is easy for them to imagine themselves in similar situations looking and feeling fantastic.

Asian women tend to be very practical wherein packaging sizes, shelf life, applicators and convenience are important. Apartments are smaller with little room for large bottles and cosmetic accessories, and warmer climates reduce shelf-life natural products. It is important that packaging materials are good for the environment. Such as plastic containers that can be reused, printing inks will not harm water systems and paper packaging can be recycled.

## Distribution Channels

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Retail sales still account for a large majority of skincare and cosmetic sales. The retail channels of cosmetic products include supermarkets, pharmacies, beauty counters in department stores, direct selling, specialty stores, beauty salons and spas. To be successful, your company should see each retailer as a destination point on a journey between your brand and the consumer. You will also need to make sure all aspects of this journey are as consistent as possible.

The Asia Pacific skin care/cosmetic market is highly fragmented—there is no one-size-fits-all answer to which retail channel is best to use. In Vietnam, cosmetic shops, supermarkets, and brand stores such as Sephora are popular, especially among office workers and university students. Singaporeans will shop at large department or brand stores in person or on store websites then pick up purchases at their local 7-11 store. In Seoul, Korea, specific shopping districts such as Myeongdong are popular. In Jakarta, Indonesia, Taman Angrek is the place to shop.

Establishing a presence in retail outlets requires utilizing some type of distributor, agent or representative. Identifying and vetting these individuals from here in Canada can be hard for many SME's. This is common knowledge in Asian markets. Consequently, distributors or agents will contact SMEs with the hope of representing them to local retailers. This is easy and convenient but may not be the best long - term strategy. It is not uncommon to end up with a distributor who represents many of your competitors and is selling to the same retailers. Often these distributors want to control the product category and do so by keeping all companies in balance to represent the market's status quo. It is unlikely they will make the extra marketing and merchandising effort to differentiate and promote your new products. The resulting scenario is that sales numbers will plateau and possibly dip, leaving significant amounts of sales left on the table had there been more effort.

Smaller, independent companies can use an alternative and more effective strategy. Simply, approach distribution from the opposite direction. This to first, identify the country market, target market, identify, vett and select the distributor. This strategy is better



because being company/market-led instead of distributor-led leads to selecting a distributor that will actively market your products. They are as a rule easier to work with all around. The vetting of distributors should not be based only on territory, agreements, and costs but on the quality of relationship as desired by both parties. This necessitates that you be familiar with different ways of doing business and any accompanying cross-cultural challenges. The Asian distributor makes his living and feeds his family by actively marketing your products. Make it worth while as its in everyone's best interests to make more sales.

### *Online Sales*

The online purchasing of cosmetics and skincare has emerged as one of the most prominent sales platforms. For example, in Korea, from Jan. 2019 to Jan. 2020, online cosmetic sales increased by 25.4%. E-mobile shopping increased 10% in the same period. In Vietnam, online beauty sales have risen by 80% since the Covid-19 pandemic began. Even with this, the extent of internet penetration into Asia still ranks well below the world average.

Asian customers are more knowledgeable and demanding than ever, and their voices have become increasingly powerful online. Consumers' interest for natural brands extends far beyond product information and pricing. They look online to understand product usage, to roam through online referrals and make purchases. Thus, online vlogs, editorial blogs, tutorials, consumer reviews and social media platforms have become an important arena for consumer decision-making. You need to ensure that your company's online presence is engaging since consumers perceive the internet as a crucial channel for knowledge.

The online experience will need to seamlessly align with the product offered as pre- and post-purchase interactions are just as important as brand power. Wherever e-commerce data lives it needs to be 100% secured and encrypted, especially when handling, storing, or passing along credit card information.

Mobile e-commerce is expected to reach 72.9% of all internet sales worldwide by 2021. A healthy portion of this will be in skincare and cosmetics. Asians are by far the world's most avid mobile shoppers. In 2019, 46.7% of Korean mobile shoppers used an app called

Coupage which can be used to purchase Canadian products. Similar mobile apps are constantly in use—especially in Japan, China, Singapore, and Thailand.

Selling natural cosmetics/skincare products online first can be a good entry strategy for many Canadian SMEs like yours. By establishing your product's presence and credibility online, the company will have definite advantages. One is that it gives your company more leverage in setting terms with distributors. Plus, it will increase brand recognition and demand among consumers at the retail level.

## Import and Export Restrictions

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Unlike the EU which has common regulatory requirements, Asia does not. The closest to this is the ASEAN Cosmetic Directive. Its objective is to harmonize regulations across the entire ASEAN region—but has not done so yet. This directive has no enforcement or legal binding power. Each country decides what to adopt from this directive into their laws according to local conditions such as religious, cultural sensitivity and consumer expectations.

All countries require an online notification that the foreign company intends to sell its products. Whether or not a local representative, distributor or agent is legally required varies from country to country. The ministry or governing departments of each market will require a PIF (product information file) with technical information about the product.

Indonesia and Malaysia both require Halal certification. This can get expensive as each formulation will have to pass strict certification requirements. However, with 62% of the world's Muslims living in the Asia Pacific there is tremendous opportunity and could be well worth it. Other countries will list positive, negative, or restricted ingredients which need to be known to government before entering these markets.

Hong Kong is simple, straightforward in registration and there are no import taxes on cosmetics as Hong Kong is a free port. There are no import duties for Canadian cosmetics in Korea because of the CKFA—Canada-Korea Free Trade Agreement. This includes skin care products, make-up cosmetics, lips care, hair care and bath soap. Indonesia requires a Certificate of Free Sale from the country of origin. In Vietnam, Canada is exempt from paying a Certificate of Free Sale because of the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership).

Cosmetics Alliance Canada Export Certificates are available for companies that manufacture and/or sell in Canada and are looking to export globally. The certificate program is designed specifically to facilitate international sales of Canadian-made cosmetics. This includes the Certificate of Free Sale, Good Manufacturing Practices, and Natural Health Products International Trade Certification. These have been used by companies for over 25 years and been issued to over 90 countries. This certification should be shown prominently on labels and packaging.

## Domestic Competition

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At one time Asian brands were perceived as copying the ideas and formulations of imports. This is an outdated view and very much contrary to what many in the West might presume. The number of domestic competitors has generally increased in most markets. Countries like Japan, Korea and China perform much of the research, development, and innovation for domestic, Asian, and global markets. This is evident from the massive amounts of global sales of K-beauty, J-beauty, C-beauty brands.

In SE Asia, domestic brands are much smaller. Some countries will have their own research labs to develop new products and many of these are underfunded. This is mostly because of a smaller production scale, lower technology, and limited investment capital. However, this is changing as governments recognize the economic opportunity to get additional tax revenues and boost employment. In addition, domestic companies can grow further being protected against imports through tariffs and nontrade barriers.

Local companies typically produce lower priced products for the mass public and sell to retailers such as supermarkets, grocery, and convenience stores. Domestic companies that do make natural products (i.e., China) will position their prices slightly lower than imports. The differentiation points in purchasing decisions are often based on the perceived authenticity and quality of natural ingredients. Canadian companies can take advantage of this as our natural products are typically viewed as being pure and of high quality.

There is always the presence of low quality and counterfeit products. Such products either avoid health and safety criteria all together or barely satisfy government inspections. Consumers understand that product standards and health regulations vary across Asia. As a result, consumers want to see credible certification on product labels, preferably from a well-recognized foreign agency such as the FDA, the EU, or Health Canada.

Local competitors will frequently use homegrown ingredients and formulations. Some of these recipes originate in traditional beauty treatments and are not known or readily available to Canadian companies. In addition, some consumers are suspicious of the quality of homegrown ingredients. In fact, a product's point of origin is one of the top factors in purchasing decisions for natural skincare and cosmetics.

## International Competition

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Every market will have the big global cosmetic and skincare brands on their shelves. Many will have been in Asia for years and have become household names. Companies such as L'Oreal, Revlon, Estée Lauder, and Shiseido Company have massive marketing budgets and resources at their disposal. They have the capability to not only mass market their cosmetics in large retail outlets but also to penetrate smaller sized markets as well. Because of their size and economies of scale, they can sell their products at lower price points.

However, many women across Asia, believe that mass produced products are not for them. They are not aimed at the individual nor are they made with them in mind. This has led and encouraged many to try smaller, independent brands. Such brands will use higher quality natural ingredients, made in smaller batches, and formulated specifically for their wants and needs. These will be the brands they can easily relate to and that will help them get the look they desire. Higher prices are not much of a concern. They are willing to pay a higher price if they know a product is authentic, effective and is a good value for their dollar.

Even within a very crowded global marketplace there are many lucrative opportunities for Canadian natural cosmetics. Asian consumers are looking for you and now is the time for them to find you.

## Final Touch up

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The Asia Pacific skincare and cosmetic market is valued at about \$200 billion by 2020. It's growth is expected to rise by 5.6 to 7.2% per year until 2025. Prior to Covid 19, demand came primarily by younger consumers. Since Covid-19, demand is coming from all age groups and genders. This is because greater attention has been focused on personal health. As a result, consumers want for top quality, healthy natural skincare, and cosmetics. This presents an excellent opportunity for smaller, independent company.

Accessing Asian markets successfully has its challenges. Many of these will not have been faced before. Different laws, languages, customs, cultures, and ways of doing business amongst them. Companies will need to learn that in many respects, Asians think in ways opposite to them. That the focus is on the group, not the individual. To keep an open mind and to expect things to happen that just don't make any sense – is just the way it is.

True, the market is crowded. Big global players are well established and have massive marketing budgets at their disposal. Yet there is room - lots of room. Throughout this research what has been continually emphasized is the demand for smaller, independent natural brands. Asia is the fastest growing economic region of the world and will be for years to come. There are challenges in entering Asia markets. But then there are challenges entering any new market.

As the ancient Chinese proverb says, "The journey of a thousand miles begins with the first step," may you now take your first step.