



EU-Japan Centre for Industrial Cooperation

日欧産業協力センター

Japanese Cosmetics Market

Obstacles and Opportunities for European SMEs

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Executive Summary

Estimated at 20 billion euros and ranked second in the world, the Japanese cosmetics market is one of the most attractive in the world. Alongside active Japanese companies (representing 75% of sales), there are real opportunities for foreign brands that are able to combine identity, quality and innovation. Indeed, the share of imports in the market has steadily been increasing since 1999, and Europe remains one of the largest foreign suppliers in Japan in terms of cosmetics. Moreover, by its colossal size, the Japanese market is proving to be equally beneficial for large groups and for small companies, as long as they know how to target niche markets.

The challenge is to anticipate and capture key market trends, identify growth-oriented segments, and be able to create opportunities. Global market trends are easy to spot and many companies, both local and international, constantly cater to them with new products, and therefore, it seems hard for a newcomer to benefit from them and be successful in such saturated markets as the natural and organic, anti-aging care, men's sectors. Thus, being able to anticipate and adapt to trends seem more profitable. There are numerous ways to do this: adapt successful ideas and concepts from other industries (bespoke products, rice, etc.); adapt to new concerns (environmental pollution, « look like yourself », etc.); be well-aware of actual social mutations (aging population, multifunctional products, etc.); benefit from old traditions (beauty advent calendars, etc.); tap in to current trends (selfie-ready products, connected beauty devices, etc.); make the best of new distribution channels (flash sales, beauty boxes, Line, etc.); and of course be innovative (nanotech tracker, Astaxanthin, etc.). These trends could be seized not only by brands but also by IT and software companies, ingredients suppliers, packaging factories, retailers, laboratories, distributors, etc., making the Japanese beauty market a destination of choice for any kind of SME. To help companies assess the current trends and booming products, store visits and analysis of the numerous rankings edited by the cosmetic portal @cosme could be extremely helpful.

Importation, financial securities, business culture, market knowledge, local employment laws, are just few of the major obstacles and difficulties that companies on their way to the Japanese market have to face. Apart from being an importation guide, this report highlights the need for SMEs to benefit from the various services that the European Commission, Member States, and the Japanese government offers, and highlight the necessity of finding a local partner.

Introduction

Often said to be an ideal springboard to succeed in the global marketplace and second largest cosmetic market, Japan has a mature and sophisticated economy with the highest retail prices for cosmetics, making it an outlet to consider for any European exporter. Although the growth of the Japanese economy is weak, Japan can be a remarkable growth driver for European SMEs, given the extent of its market. Moreover, recent market evolutions and a weak yen are encouraging for foreign investment. Within this favourable business climate and despite many obstacles, Japan is full of business opportunities for European SMEs.

The strategic decision of internationalization is not one to be taken lightly: it is full of difficulties to overcome, that can emerge from cultural misunderstandings, consumer misknowledge, market structure differences, hidden opportunities, etc. The main objective of this research is to cover these difficulties by providing EU SMEs a comprehensive analysis of the Japanese beauty market, highlighting the obstacles and opportunities. To achieve this, this research will attempt to answer the following questions:

- What is the current state of the Japanese cosmetic market?
- What are the new trends and promising sectors?
- How to successfully enter the market: get a support, find a distributor and handle major difficulties?

This report is not a market study, instead it will make a point of highlighting how to look for, anticipate, or create opportunities by analyzing recent trends in various sectors related to the cosmetic industry. Therefore, not only dedicated cosmetics brands but also IT companies, packaging factories, ingredients suppliers, retailers, software companies, distributors, etc., are all subjects and potential beneficiaries of this report.

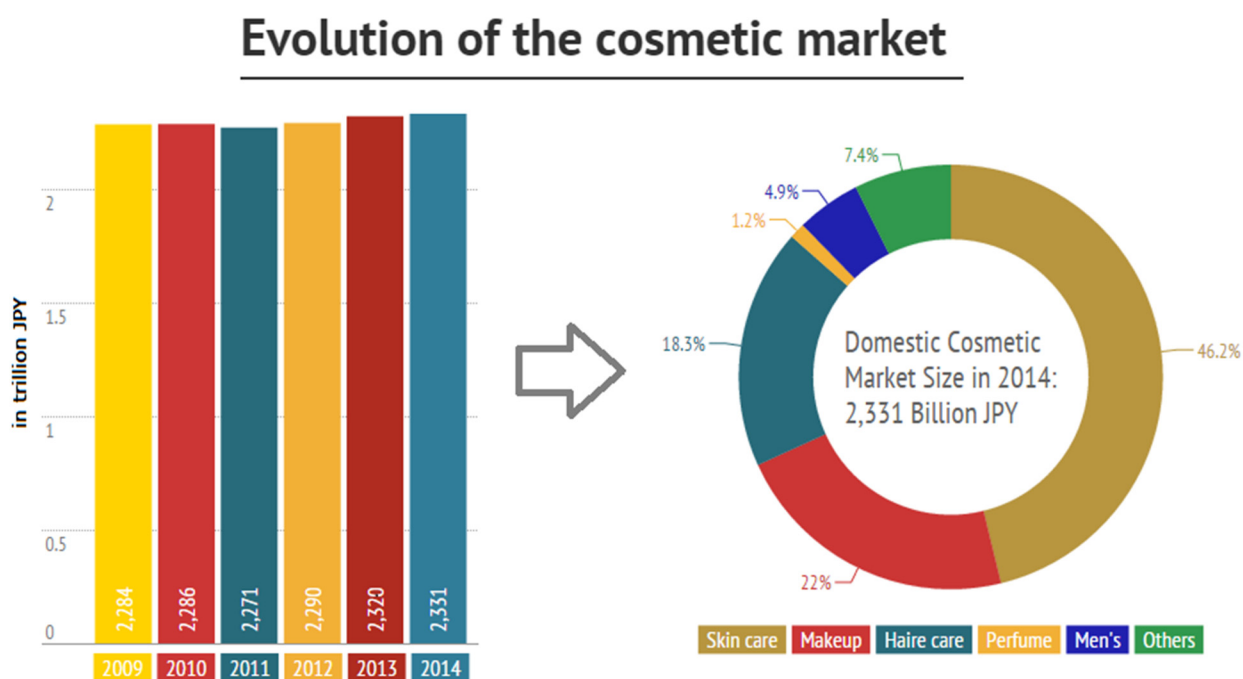
N.B: 1 EUR = 130 JPY

I. Current state of the Japanese cosmetics market

A. Market specificities

1. Japanese cosmetics market situation

In 2014, the Japanese market was estimated at 2.331 trillion JPY (20 billion euros) and ranked second worldwide. To understand its specificities, it is important to always bear in mind the size of each segment and the meaning it carries: Japanese women tend to think of cosmetics not as something to cover up skin deficiencies, but rather as skin care cosmetics that make their skin more attractive. Compared with Western women, Japanese women tend to use smaller amounts of makeup and fragrances such as perfume and eau de cologne. The cosmetics market in Japan has been driven by consumer demand for skin care cosmetics and is stable.



Source: Yano Research Institute

a. Situation per category

i. Skin care

The Japanese market for skin care products, representing nearly half of the cosmetics market (46,2% market share in relative weight), consists almost entirely of facial products. With a total value amounting to 1.07 trillion JPY (approximately 8 billion euros), it is the largest segment of the industry and its fluctuation strongly influences the general market trend.

Skin care products usually generate for manufacturers higher margin than other product categories. Despite their high prices, the level of skin care products consumption remains stable as these items are an essential part of the beauty routine of Japanese women. These products affect all categories of consumers, since even women in their twenties are using more and more anti-aging products.

ii. Makeup

Makeup cosmetic includes foundation creams, lipsticks, and eye makeup. Among these, foundation creams accounted for about 45% of makeup cosmetics. Eye makeup has been in steady demand by younger consumer groups over the last few years. Blusher was often highlighted in fashion magazines recently while cosmetics manufacturers significantly increased the number of commodities.

iii. Hair care

Representing nearly 20% of the cosmetics market (3 billion euros), hair care market, once heavily represented by coloring products (again representing 30% of the hair care market) has experienced significant changes. Recently, shampoo, hair dye, and treatments, became the three leading commodities in terms of demand, accounted for about 70% of all hair care products.

iv. Perfume and eau de cologne

The act of using perfume is still rare in Japan, and sales of perfumes and eau de cologne represent just over 1% of the total cosmetics market. Imported brands dominate the market with almost 82% in share value, a share that does not cease to grow at the expense of domestic manufacturers.

In Japan, perfume was considered a fashion accessory associated with the Western luxury and prestige until now. The market tends to be bipolarized between high-end perfumes and mass products affecting increasing numbers of young Japanese. Women are more sensitive to a “cute” packaging while men are looking for refreshing and light flavors that can be used in the office. As the recent boom of aromatherapy shows, perfume and other “scent” related products seem increasingly accepted in society. The evaluation of the market remains difficult as probably half of sales are from parallel imports.

v. Men's Care

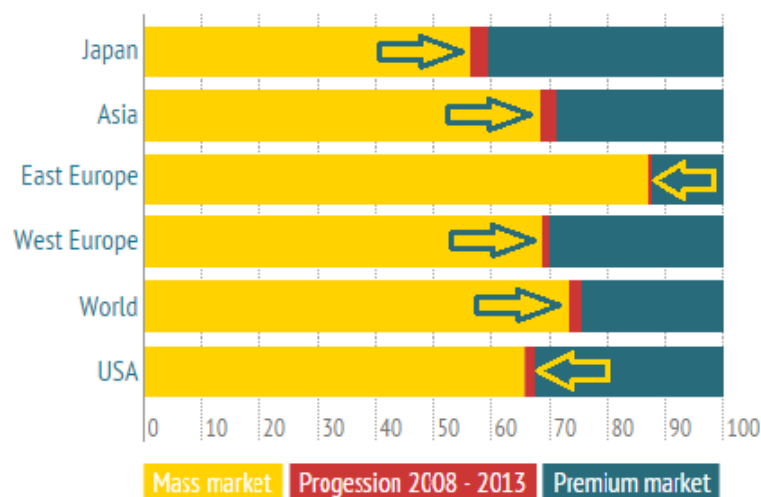
Cosmetics for men represents all kind of care, (skin care, hair care and makeup made for men). Japan is one of the fastest growing markets in the world, most of the disincentive reasons to the use of this type of product being culturally weaker than in the West. In addition to the conventional hair care products (hairspray / dye), skin care experience a strong craze not only for young adults (20-35 years), but also men of 50 years old, who have a strong purchasing power and show a new consideration for their appearance. The skin care segment appears particularly promising (5% yearly increase). It is considered that if more than 90% of the cosmetics market for women is already saturated, only 20% of men's market is exploited.

b. Situation per price range

i. Premium and mass market evolution

When it comes to the price reduction tendency, Japan is no exception. Due to the economic stagnation and the resulting deflation and reduction in incomes of the mass merchandisers and drugstores, the market is recently characterized by a steady progress of price reduction.

Premium / mass market progression 2008 - 2013



Source: Euromonitor International

While the premium market (products sold in Department store, select shop, etc.) in Japan is still one of the highest in the world in terms of share, mass market is growing year after year, forcing key Japanese players to adapt their offers to this market they used to neglect. Consequently, Shiseido, Kanebo, Kose, and other major cosmetics manufacturers entered the low-cost skin care cosmetics market. The cosmetics market is experiencing fiercer competition among these players, in particular the biggest cosmetics company in Japan, Shiseido, has rolled out its "Senka" mainly in drugstores where it has lagged behind in selling low-cost products costing less than 1,000 JPY, focusing its efforts on sales promotion with huge promotion budgets.

ii. Price range evolution

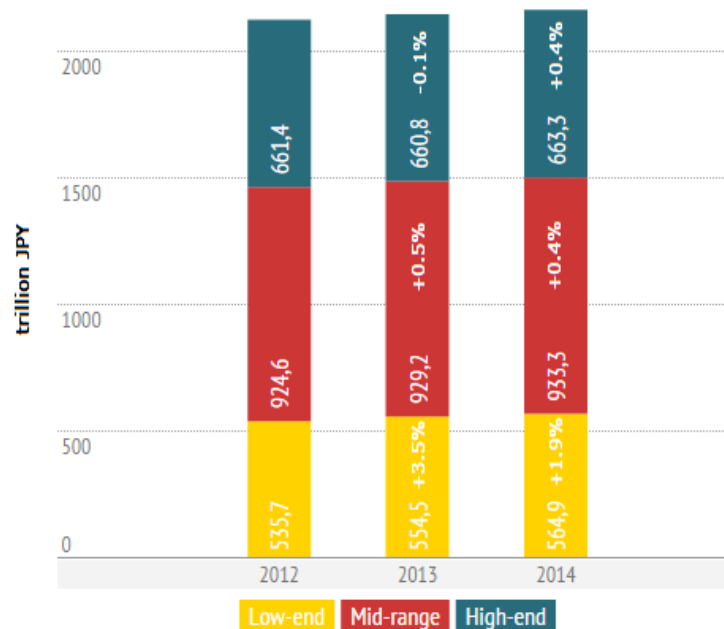
Price ranges differ substantially from one country to another, making it very difficult to actually understand, in terms of price, how much a low-end, mid-range or high-end product is actually worth. While mass market and premium market notions differ mainly by their distribution network (department store, drugstore, etc.) and are basically the same on every market, price range must be clearly defined for every type of category.

	Low-end	Mid-range	High-end
Skin care	< 2,000 JPY	2,000 - 6,000 JPY	> 6,000 JPY
Perfume	< 2,000 JPY	2,000 - 5,000 JPY	> 5,000 JPY
Hair care	< 650 JPY	650 - 1,000 JPY	> 1,000 JPY
Men's	< 750 JPY	750 - 2,000 JPY	> 2,000 JPY
Make-up	< 2000 JPY	2,000 - 4,500 JPY	> 4,500 JPY
Body care	< 1000 JPY	1,000 - 3,000 JPY	> 3,000 JPY

Source: Fuji Keizai

Therefore, 5,000 JPY for an anti-aging care will be considered as a high-end product in some Asians markets, while it will be considered as a mid-range product on the Japanese market. It is absolutely mandatory to keep those prices in mind when it comes to setting-up a business plan to enter the Japanese market or when negotiating with distributors and agents.

Price range evolution



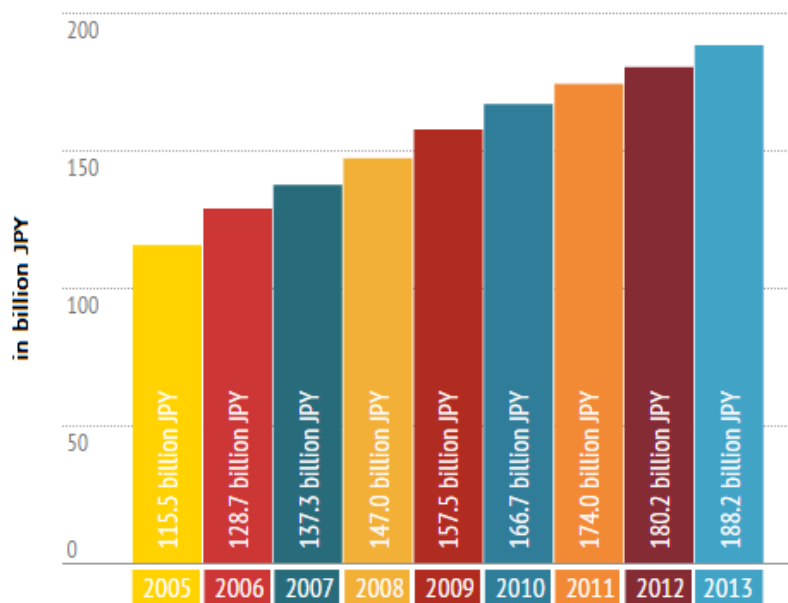
Source: Euromonitor International

As mass-market is slowly taking over the premium market and key players are offering more and more low-end and mid-range products, prices are steadily dropping. As a result, the low-end market is growing faster than the mid-range and high-end market with an average of 3% per year.

c. Situation of the natural and organic market

The overall cosmetics market in Japan is considered to be the second-largest, however, natural and especially organic cosmetics are still very much a niche in Japan. Nevertheless, the market is on the rise due to increasing consciousness towards safety and security by consumers, and also environment-conscious lifestyles and ethical consumption for social contribution has been valued by general people. The natural and organic cosmetics market in Japan is currently worth around 190 billion JPY (around 8% of the market), including products that are not third-party certified. Certified organic products, which are considered to be “authentic organic”, constitute a market worth of an estimated 25 billion JPY, less than 1% of the market. Even if the growth of the natural and organic market used to be higher (around 10% in 2004 – 2005), it is now around 4% per year (as shown on the chart below) and it is likely to grow steadily, due to rising awareness, increasing number of brands in the market, efforts of promotions by leading media, and more opportunities to reach customers due to channel expansion.

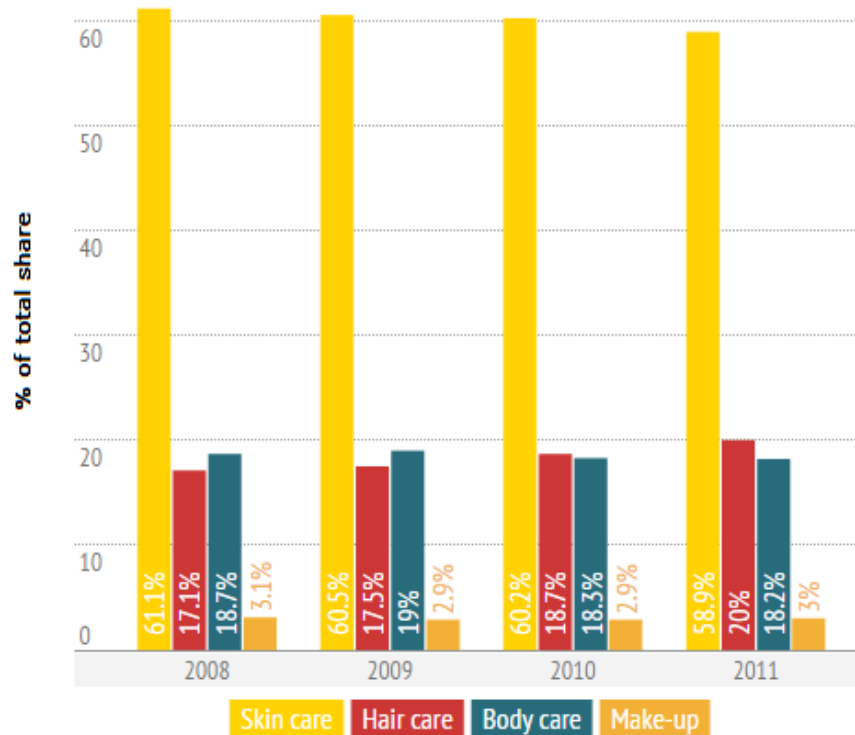
Progression of the natural / organic market in Japan



Source: 株式会社総合企画センター大阪調べ (TPC Bibliotheque - Osaka)

Even though skin care still represents around 60% of the natural and organic market, this category suffers a significant reduction for the benefit of the hair care products.

Natural / organic market evolution by category



Source: (株)総合企画センター大阪調べ (TPC Bibliotheque – Osaka)

Contrary to other major cosmetic market, natural, and even more organic products, never had the “boom” in Japan that everybody expected. The president of Ecocert Japan, Donald Nordeng, even said that “The Japanese cosmetics market is fairly saturated with imported organic products” which is not reassuring for the foreign brands wishing to enter this specific market in Japan.

While the French Ecocert is currently the only third-party certifier for organic cosmetics in Japan, foreign certifier can be spotted on labels in Japan: German BDIH (Bundesverband der Industrie- und Handelsunternehmen, the association of industries and trading firms), French COSMEBIO (Charte des Cosmétique Bio, the professional association for natural, ecological and organic cosmetics) and others. These products are mostly sold in dedicated stores like the Japanese “CosmeKitchen” or in some popular European-lifestyle cosmetic-brand retailers such as The Body Shop and L’Occitane, which have also introduced their own organic cosmetic lines.

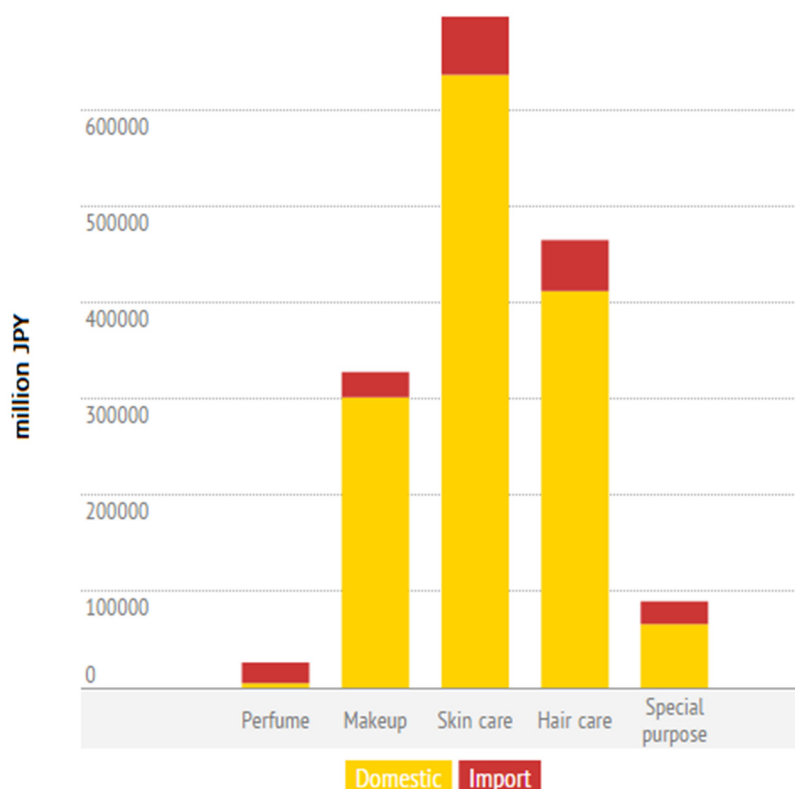
Japanese cosmetics manufacturers have recently joined the boom and new made-in-Japan organic cosmetics have increased rapidly over the past three years, and taking over the market, as they are specifically developed to perfectly match Japanese skin type, reducing even more the opportunities for any foreign brand on this market.

2. Import market situation

Imported cosmetics market represents around 10% of the total market and had been steadily growing. Europe is one of the key player in the imported market, lead by France, representing around 40% in terms of value of the total market even though Europe is accounting for only 13% of the volume, while Asia accounts for 70% of the volume but only 38% in terms of value. This can be explained by the average unit price of imported products coming from Europe (around 3500 JPY) and Asia (around 600 JPY) reflecting the segmentation of the market: most of the luxury and premiums products are imported from Europe (mostly France, Italy, and Germany) while mass market products usually come from Asia (China, Thailand, and South Korea mostly).

The Japanese cosmetic market shows large disparities between the domestic and imported products market, and as stated above, even the import market shows large variations depending on the country of origin, the type of product and its price, making opportunities highly dependent on these criteria. Indeed, as we can see from the chart below, even if the perfume market is among the smaller of Japan, it is dominate by foreign brands (France, Italy, USA and Germany) and local players account for less than 20% in terms of value.

Import market share



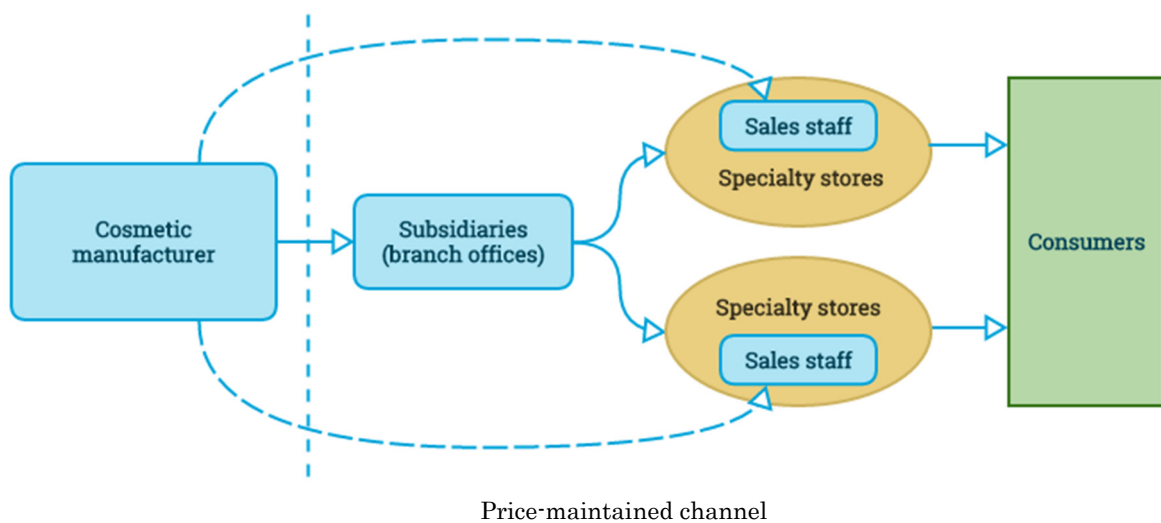
Source: Yearbook of Cosmetics Shipment Statistics (METI), Trade Statistics (MOF)

3. Distribution

a. Distribution network

i. Price-maintained channel

The «seido hin» (制度品): “price-maintained channel” in which companies distribute premium products to specialty stores through internal subsidiaries, without going through wholesalers. Doing so, companies can avoid the cost charged by a wholesaler. However, the contract made with these specialty stores include sales staff, usually called “beauty advisor” sent by the cosmetic manufacturer to make demonstration, provide advice and guidance to the customers, especially on the most efficient way to apply the product. It represents an important part of the Customer Relationship Management (CRM) of a company and should be considered with utmost importance.

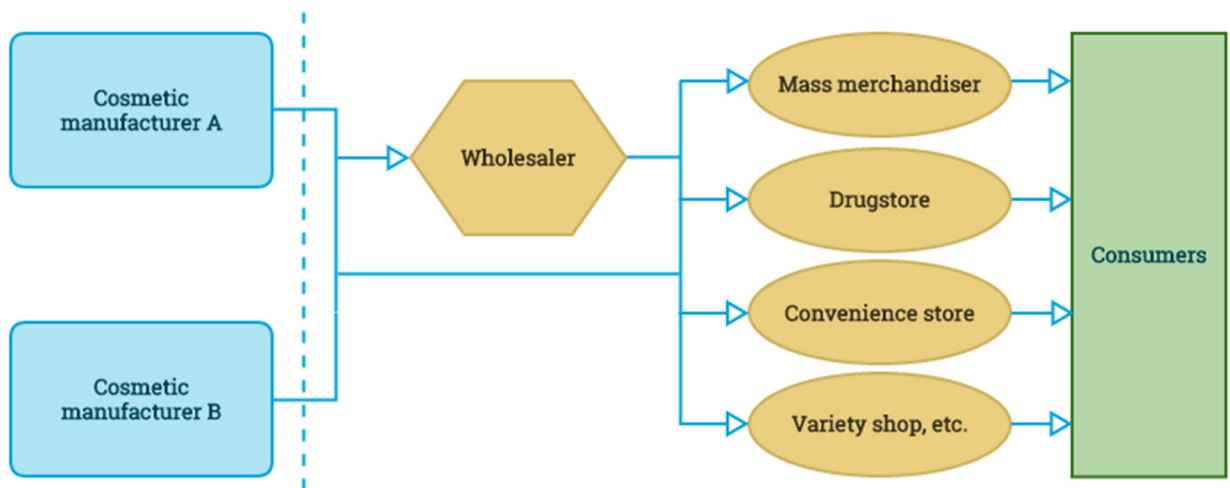


ii. General channel

The «ippan hin» (一般品): the “general channel” is mainly for mass distribution (mass merchandisers, drugstores and convenient store, etc.) through independent wholesalers. While sales in the channel "seido-hin" are assured by the beauty advisors dispatched by manufacturers, buying in the "general channel" is done in self-service. Cosmetics sold by mass merchandisers are mainly those manufactured by large companies such as Shiseido, Kanebo, Kose, and Kao. Sales per mass merchandiser are lower than those per department store, but total sales by the merchandisers are higher than those by department stores due to the large number of stores.

Lastly, it is important to understand that in Japan, manufacturers cannot impose specific terms regarding the business practices of the wholesaler. Therefore, a manufacturer cannot impose to the wholesaler its selling price to retailers (and even more retail prices) and to refrain from selling to a specific chain store or type of retailers (drugstore, convenience store etc.). Even though a “gentlemen's agreement” is made by both parties, the merchandisers can sell at any discount price to any retailer and could not be prosecuted for it. This specificity explains why

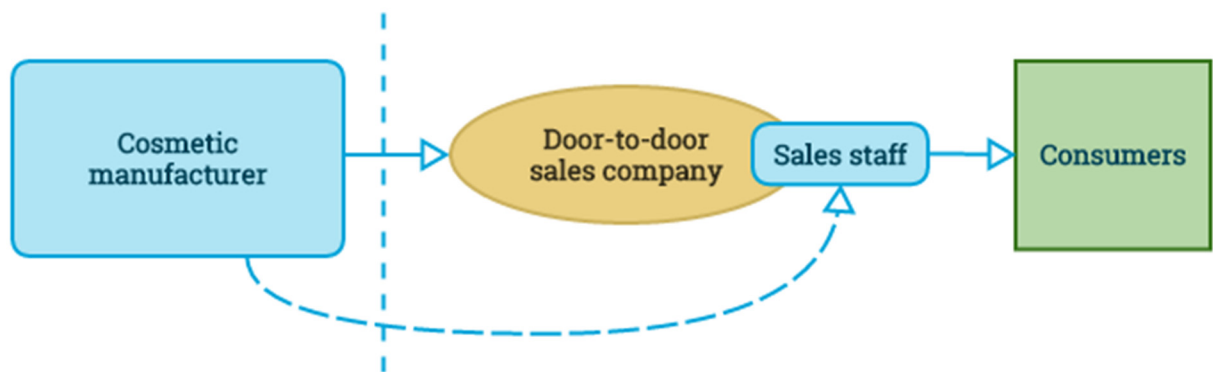
high-end products like jewelry, perfume, leather goods, etc. are sold with a huge discount in supermarket like Don Quijote.



General channel

iii. Door-to-door channel

The «houmon hanbai hin» (訪問販売品): the “door-to-door” sales are made by sales staff visiting consumers' homes to present and sell cosmetics. This type of sales used to be very popular and posted a remarkable growth during the 1960s and 1970s. It grew on the back of a very interesting incentive system for the sales staff, but in recent years it has faced an ongoing hostile environment due to a drop in the number of women at home, to an enforcement of the Act on the Protection of Personal Information and because progressively, consumers do not want home visits. Consequently to the advent of internet and mobile technologies, the “distance selling” grew at the expense of the “door-to-door” sales.



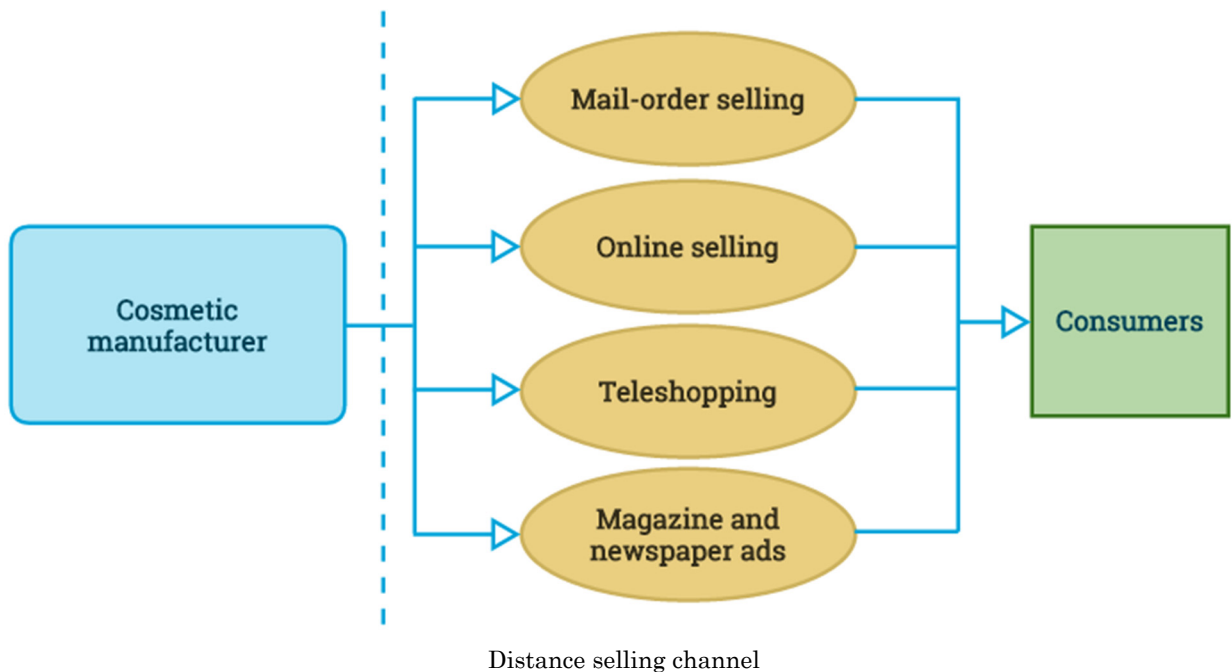
Door-to-door channel

iv. Distance selling channel

The « tsuhan hin »: Distance selling (VAD) is the fastest growing sales channel in Japan, covering mail-order selling, teleshopping as well as online sales. The top five VAD cosmetic companies account for more than half of the sales of the whole circuit. Demand for mail-order

sales is expanding due to the enhanced convenience of the Internet and cell phones, due to the appearance of mail-order programme channels on television and due to the rapid improvement in the services offered by couriers. In addition to the conventional long-established manufacturers that utilize mail-order sales, newly emerging cosmetics manufacturers that have been in business for few years are increasing their sales momentum in this market.

Also, as the number of teleshopping channels and the number of Internet users is increasing, VAD network show great potential for new entrants to the market. This niche is primarily looking for products still missing or unknown in Japan, and thus is an interesting opportunity for new foreign brands. Products with originality, uniqueness and effectiveness that can be claimed by visuals, patterns etc. have a good chance of success. Contrary to Europe, VAD in Japan is not associated with a low-quality image and sales of high-end cosmetics via this distribution channel is far from being detrimental to brand image. The main challenge is to build customer loyalty, as the customers of this channel frequently turn to what's new.



v. Direct channel

The « chokuhan hin »: The "direct" sales channel, mostly operated by the manufacturers of major brands (Chanel, L'Oreal, Shiseido etc.) who sell their products directly to department stores. In most cases, the cosmetics are sold by sales staff sent by the manufacturer, as in the “seido hin”. The sales of cosmetics in department stores could be very profitable, but there are also numerous drawbacks: the selling price is usually very low (around 15%), the rent could be very expensive, a



sales quota per square meter is imposed, the department store will usually take a percentage of sales (10% - 20%), the staff is sent by the manufacturer and has to be trained, the brand has to participate in every discount campaign etc. If one of these conditions is not fulfilled, it will lead to a change in the sales agreement conditions or a pull-out from the stores.

Direct channel

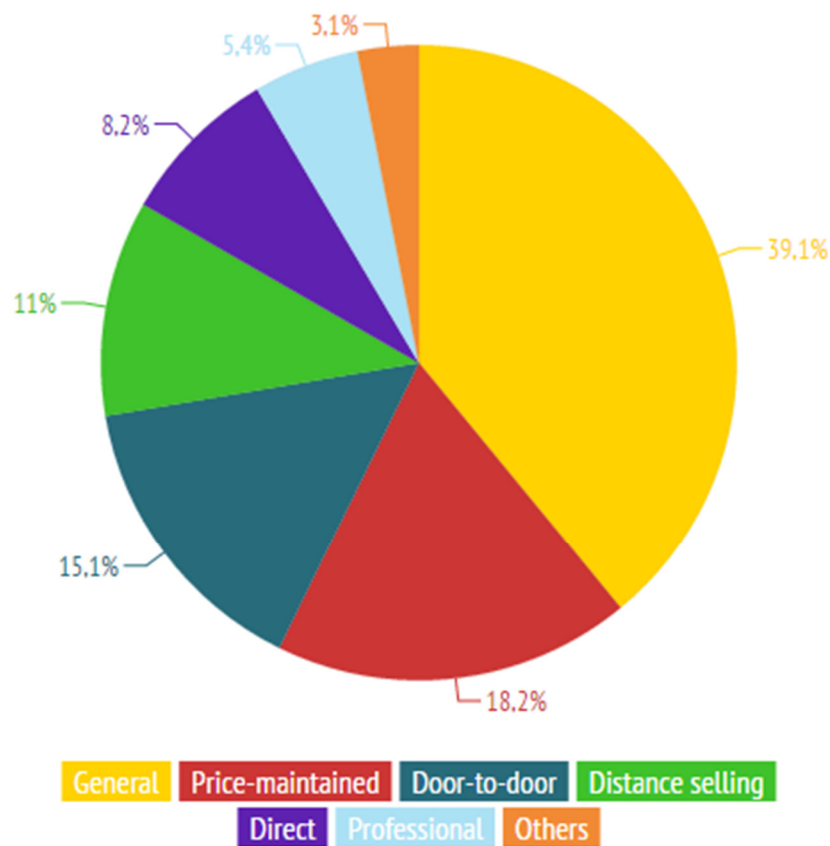
vi. Professional sales channel

The « gyomu hin »: Sales channel for professionals only.

b. Sales channel share

The share of sales channel is as below.

Sales channel share



Source: Yano Research Institute (2008)

As seen above, the general and price-maintained channel represents almost two-thirds of the whole market. One of the specificities of the Japanese market is the importance of the door-to-door channel (around 15%) compared to most of the European countries where this channel is usually marginal. This channel, as well as the distance selling channel, should be considered as an alternative for any European exporters.

c. Point of sales

The Japanese retail environment is very different from the ones in European countries in terms of diversity of point of sales and amount of sales. Entering the Japanese market requires a good knowledge of this variety and their specificities.

Format Type	Products	Number	Remarks
Department Store	Mixed merchandise	250	7 chains account for 77% of total sales. More than 3000 sqm.
General Merchandise Store	Mixed merchandise	1,600	15 major chains.
Specialty Supermarket Store	Cloth, food, cosmetics, DIY, households	35,000	In addition to SM, there are a further 350,000 or so specialty food stores. More than 250 sqm.
Convenience Store	Mostly food	43,000	5 chains only with 80% share. Open 24/7. Between 30 and 250 sqm.
Variety Shop, Select Shop, Specialty Store	Apparel, cosmetics etc.	Around 1,000,000	Increased concentration, but most fragmented sector due to ease of entry and intangible nature of demand. Usually small-size shop.
Drugstore	Mostly drugs and related	12,000	Aeon and Matsumoto Kiyoshi control 50% of the market.
Other	Sports, Books, Liquor, Music, etc.		

Generalities about point of sales - Source: JapanConsuming

i. Department stores

In recent years, the overall department store sales have continued to decline (3% of drop yearly since 1997), and so the number of stores (from 476 department stores in 1997, only 250 remains in 2015). Against this background, cosmetics segment has been one of the categories that best resisted the retail sales drop. Despite a relatively small market share (around 8%), department stores are a prestigious and essential distribution channel and is often considered as the only true luxury distribution channel in Japan. Indeed, the department store is the only distribution channel that do not sell products with a discount, therefore luxury brands can be assured that their retail prices will be respected in department stores, compared to other distribution channels. In this respect, department stores are the privileged networks of major foreign luxury brands, which incidentally represent over half of the brands sold in department stores.

Selling in department stores seems to be ideal for any mid-market or high-end brand, but being sold there comes with a price: the wholesale rate mainly depends on the sales volume and is usually low (usually around 15% - 20%). Moreover, the manufacturers have a lot of obligations: most of the time they have to rent the retail space at a very expensive price, support sales for each store, educate the employees of the merchandisers, provide POP (Point Of Purchase) materials, etc. The competition for these limited spaces is very intense and referencing a foreign brand in department store is, therefore, hard.

Example of department stores: Isetan, Takashimaya, Mitsukoshi, Sogo, Lumine etc.

ii. General merchandise store

GMS are general stores which are similar to that of supermarkets in Europe, even though their surface space is generally smaller. One of the specificities of these stores is the quasi-absence of foreign brands. They all sell both cosmetics in self-service, often at low prices, and more upscale products in dedicated spaces (“corner”).

Example of supermarkets: Daiei, Ito-Yokado, Seiyu, etc.

iii. Variety shops, select shop, specialty stores

Variety shops are stores specializing in imported products, which offer products as varied as stationery, clothing, food, and cosmetics, in the same store. Therefore, Plaza Style, a good example in this regard, offers Lindt chocolate, T-shirts, and L’Oreal products. In terms of cosmetics, their range of choice is wide enough as it contains brands like Bourgeois, Roc or Urban Decay. These stores operate as windows of newly imported products in Japan, and they attract many trendsetters. Contrary to these variety shops (Plaza Style, ITS’DEMO, Maria Maria, Rosemary, Shopin, Champ de Herbe, etc.) that offer few products in a limited area (usually one floor), there is much larger stores like Tokyu Hands and Loft, offering more varied products (furniture, interior design, jewelry or Christmas trees) on seven or eight floors. The sales of these two types of Variety shops also differ, with much higher sales for the second category. Finally, the presentation of products, we can see most often a rather patchwork of brands and products, sometimes quite different ranges.

N.B: Variety shops are among the easiest way for a foreign brand to access the Japanese market as these chains are always looking for new concepts and brands to distribute. However, their marketing positioning is rather low, and most of the department stores will ban from their shelves any brands listed in these stores, to keep and maintain a high level of public image. Being listed in variety shops is, therefore, a choice that has to be carefully considered, as it is likely such brands will remain confined to this specific distribution channel.

Although "select shop" is now in common parlance around the world, it was originally the Japanese term for boutiques that handle a wide selection of fashionable selected items from different brands, reflecting the concept and the taste of the shop. They provide customers with products procured from all over the world, based on unique brand concepts and the discerning judgment of their buyers. In handling products that offer the appeal of high-value-added attributes and a distinctive uniqueness, select shops are positioned between department and specialty stores at the mid- to high-end price range. Traditionally, select shop offers apparel (United arrows, Beams, Nano universe, Urban Research, etc.), but recently more and more select

shop dedicated to cosmetics (Cosmeme, Isetan Mirror's, Cosme Kitchen, Musee de Peau, etc.) are opening, often located on the lower floor of department stores.

Specialty stores are franchised stores (mostly mono brands), specializing in the sale of beauty products, and belong for most of the leading manufacturers sales channels, such as Shiseido, Kanebo, Max Factor, Kose, etc. Franchisees receive regular training, sales aids and benefit from advantageous rates. Some brands are distributed only through these shops, which have long been the backbone of the Japanese manufacturers, providing a dense and nationwide coverage. Despite their large market share, these stores continue to see their numbers and sales decline, and as they cannot, in any way, deal with another brand, their corridor of action is extremely limited.

iv. Drugstores

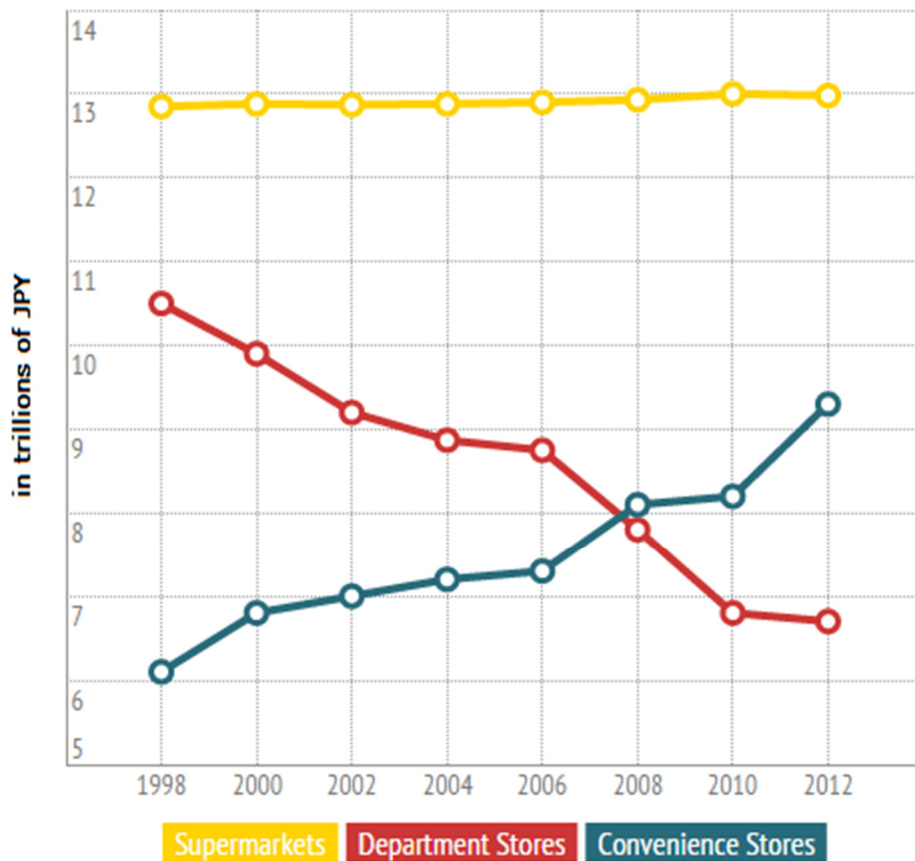
Japanese drugstores were created on the model of American drugstores. They conduct store management and assortment by themselves and have a wide assortment of merchandise for different consumer targets (mainly young women): drugs without prescriptions ("Over The Counter" drugs or OTC), cosmetics, toiletries, cleaning supplies, snacks etc. The prices are generally cheaper than anywhere else (due to discount they got from their headquarters in the case of bulk purchases), with a careless presentation (contrary to variety and select shops): the products are aligned in a confined space or packed in trays. Because of the fierce price competition, foreign brands are usually not sold in drugstores because their prices are higher than local brands for an equal quality.

Since the deregulation of the market in 2009 (under the "Pharmaceutical Affairs Law"), new retailers such as convenience stores are now authorized to sell drugs (granted under certain conditions). To face these new competitors, some drugstores aspire to improve their sales technique, putting more emphasis on better quality of service and products sold. To this regard, some drugstores began selling high-end products and natural cosmetics sold by beauty advisors, or even opening a beauty space within their stores. However, cosmetics sales in convenience stores have traditionally been limited due to the high proportion of male consumers and the low purchase unit price per customer. Despite this context, large companies are currently focusing their efforts on developing the sales of cosmetics through convenience stores, for instance, Shiseido's exclusive merchandise for the convenience stores "Kesho Wakusei" and Kose's exclusive merchandise for Seven Eleven "Sekkisui."

d. Evolution of distribution networks

The Japanese retail environment is very different from the ones of European countries in terms of diversity of distribution networks and amount of sales. Entering the Japanese market requires a good knowledge of this variety and their evolutions to be able to properly assess the market. After a description of the distribution networks and the main point of sales type, it is important to understand the mutations and variations of the whole retail environment and the implications of these evolutions.

Sales trends of retail industry



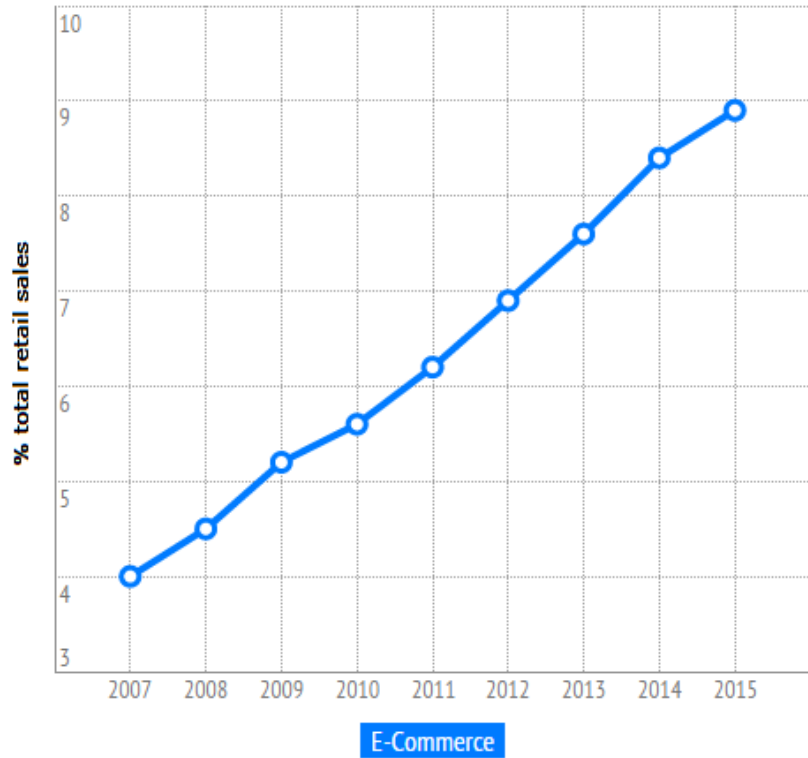
Source: Statistical Portrait of Seven & i Holdings (2013)

The most significant evolution of the Japanese retail environment is the constant drop in terms of sales and number of department stores. From around 10.5 trillion JPY in 1998, the sales of department stores in 2012 were around 6.8 trillion JPY. Consequently, the number of department stores dropped from 476 department stores in 1997, to only 250 in 2015. Despite this huge decline in sales, the retail market remains globally stable (around 140 trillion JPY over the years) due to the constant growth of the convenience stores, select shop, specialty stores, and basically all the “local stores” that are more and more privileged by a constantly aging Japanese population. In reaction to this drop, the different groups behind the main department store chains had to evolve to survive the “do-or-die” business environment of recent years. Most of them did it through a merger, like Daimaru and Matsuzakaya in 2007, or Isetan and Mitsukoshi

in 2008, and they are now looking beyond department stores. In 2012, J. Front Retailing (whose operations encompass the Daimaru and Matsuzakaya department store brands), purchased commercial property operator Parco. 2014 has seen the acquisition of the Izumiya supermarket chain by H2O Retailing, which runs the Hankyu and Hanshin brand department stores. In addition to acquisitions, growing outside of Japan, particularly in Asia is one of their main strategies.

The second most significant evolution of the retail environment is the constant evolution of internet and e-commerce. The proportion of households with internet access currently hovers around 90%. Broadband infrastructure delivers high speed and easy access to much of the country, and now accounts for around 85% of all connections and continues to expand. That makes Japan the second country in terms of average internet connection speed with 14.6 Mbit/s, which is substantially faster than the speeds in most of the European countries, for both household internet access and mobile internet access. This high speed and the wide coverage of internet in Japan support the huge growth of this sector since 2007, and the total “non-store” market in 2015 range from 16 to 18 trillion JPY (it was only 8 trillion JPY in 2007).

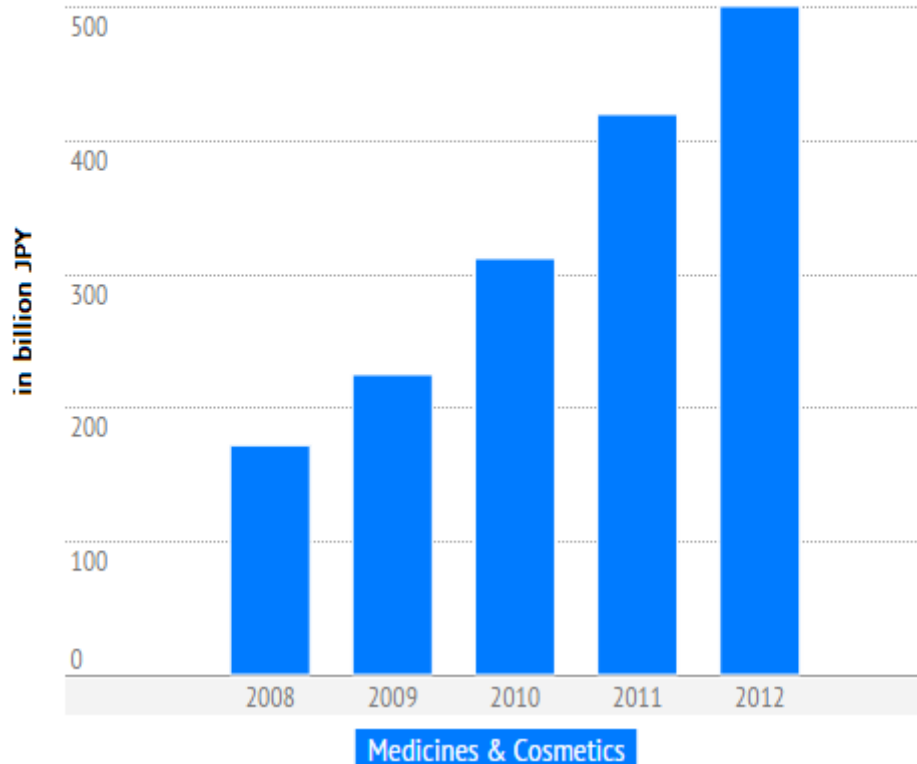
EC retail sales



Source: Japan Apparel & Fashion Report 2013

As stated by METI and as we can see from the graph above, the extent of non-store retailing growth has expanded 2.5 times in the past 10 years, and this sector is estimated to account for around 10% of the whole retail sales. The fastest growing category in 2012 was apparel, followed by cosmetics. Both these categories have led the growth ranking for the last five years.

E-commerce sales of medicines and cosmetics

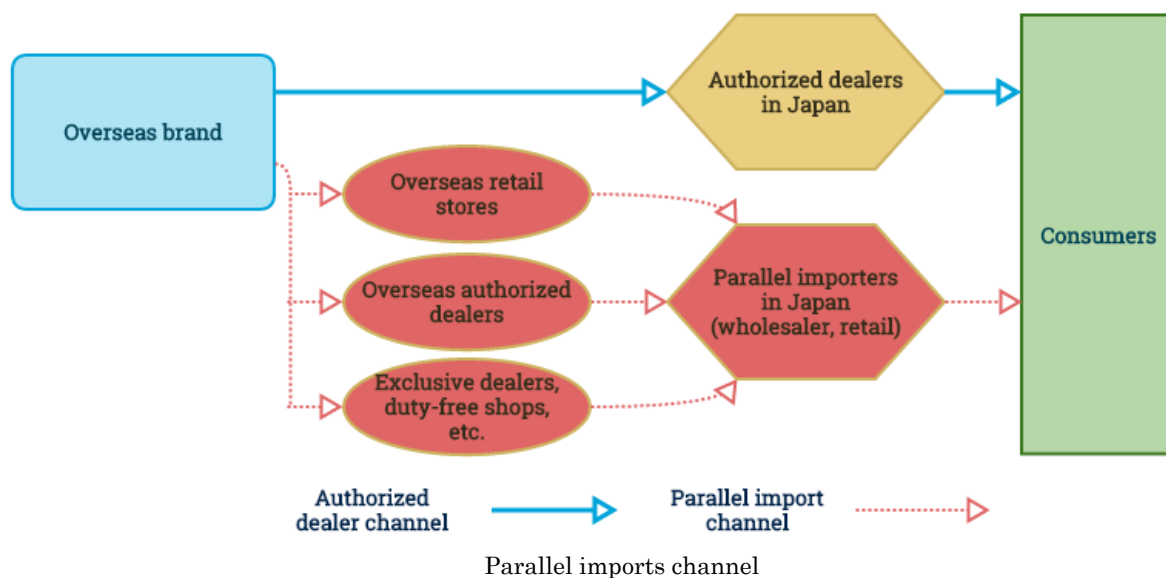


Source: Government data

E-commerce is definitively a major sales channel in Japan and is a wealth of opportunity for any European brand, especially for cosmetics as stated above. These opportunities will be developed in the chapter [II.E](#).

4. Parallel imports

The main channel for importing certain goods, including high quality goods, in Japan is through retailers and other official intermediaries: products are imported by wholesalers, distributors or agents (often the manufacturer's local subsidiary). An alternative route is that of parallel imports, which involves the import and resale of non-counterfeit goods without the manufacturer's consent. These products are distributed mostly on Internet and discount stores at prices 30-60% below department store prices (that represents the official retail prices). This "grey market" thrives on price differentiation between countries. This problem mainly affects prestige and high-end brands in various ways. For instance, such imports typically disorganize the manufacturer's distribution network in a given territory and when confronted with active parallel imports, exclusive or authorized distributors, agents may become more reluctant to invest, innovate, launch new advertising campaigns, offer extra sale, pre-sale or after-sales services in order to reduce their costs.



Even if in the 1960s, parallel imports of genuine goods were considered a violation of the local brand distributor's IP rights and were condemned by case law (Parker pens, Nestlé coffee, Bayer aspirin, etc.), it became a legal business transaction which has been approved by the Japanese Ministry of Finance in 1972 and by a number of court precedents. Therefore, neither the Japanese law, the authorized importer nor the manufacturer can prohibit parallel imports.

5. Products specific to the Japanese market

Traditionally, Japanese consumers use categories of cosmetics slightly different from those that can be found in Europe.

a. Lotion

In Europe, "lotion" usually refers to a cleanser or a moisturizer, which is not the case in Japan. A lotion in Japan is not used to remove impurities or residual traces of makeup or to "balance" the pH, therefore, it is not considered as a makeup remover. However, Japanese use lotion to prepare their skin for care, moisturize their skin, and for a variety of additional functions (whitening, anti-wrinkle, anti-acne etc.). There is no real equivalent in Europe for this type of product: this skin preparation step is a Japanese concept and is regarded by the Japanese as paramount, whatever their age.

The application mode is also different: the lotion is applied in large quantities, by massaging the skin and is often used in facial masks. The last important point is the presence of alcohol. Whereas in Europe, alcohol-free products are innumerable, in Japan it is scarce, and for good reason: Japan (especially Tokyo and surrounding areas) is very humid in the summer and an alcohol-free lotion would put too much time to penetrate the skin, or give a sticky skin. So the presence of alcohol is a very important point to consider. They can be found in all outlets at very different prices.

b. Essence

Essence or *biyoeki* (the term "essence" do not really refer to a type of texture or special packaging; thus, they can be found in serum, cream, milk, fluid or gel) is another key product of the Japanese beauty routine. It is a concentrated product that can combine several functions: anti-aging, whitening, anti-fatigue care, etc. The price of essence is higher than for other types of products to emphasize their effectiveness.

c. Milky lotion

Between a lotion and a moisturizing fluid, the milky lotion has a light texture, is more moisturizing than a lotion, and can be used in conjunction with an essence or lotion before makeup. The milky lotion enhances the hydration of the skin and plays a role of "protective layer" which retains the moisturizing ingredients of the lotion. For Japanese, overlaying four or five products is common practice. When selling skin care in Japan, it is essential to clarify the role of products, their function in relation to other products in the range and their optimal method of usage.

d. Whitening

Another specific product of the Japanese market: the whitening. More clarifying and illuminating than actually whitening, it meets the concerns of clarity and purity of the complexion of Japanese women. The majority of domestic manufacturers, as well as all major foreign groups, have developed ranges of whitening products (*bihaku*) to meet this expectation. Demand for whitening products is constant, and it does not seem to weaken. The constant research of a brighter complexion also results in an increased demand for UV products.

e. Bath products

If within other product categories (hair care, makeup etc.), we mainly find the same, it should be noted that the market of bath products is much more developed than in Europe. The products variety is very wide and we thus find bath salts with moisturizing, firming, slimming, or energizing claims. The selling space devoted to this type of products in stores is much larger, indicating their importance in the lives of Japanese consumers. Therefore, selling foreign bath products in Japan requires a very high knowledge of the Japanese bath routine and an adapted marketing strategy.

6. Demand analysis

a. Consumer behavior

Consumer behavior is very different from a consumer class to another. Distinguished not so much in terms of income, but age and gender groups.

i. Consumer buying behavior

The Japanese consumer is extremely attentive to the value of the product offered to him and demands the highest quality. In reality, Japanese consumers have two divergent purchasing behaviors: buying cosmetics whose unit price exceeds 100 euros on one side and opting for the most economical value for other types of products, especially shampoos and soaps on the other.

For the Japanese consumer, packaging is almost as important as the product itself. A sloppy packaging might result in a credibility loss for the product and the brand itself.

Very sensitive to novelty, Japanese are always looking for new products which can impact the consumer brand loyalty. Therefore, the product life cycle becomes shorter and shorter, and manufacturers constantly develop and launch new products to cater to the needs of novelty. Added to this is a demand in seasonality. Thus, as can be seen in the fashion or food industry, the offer changes and adapts to the seasons and events throughout the year.

ii. Corporate image

The corporate image in Japan is paramount. It is important to know that the image of most European products is always very positive and these products are widely recognized in Japan for its creativity, design, and traditional craftsmanship. Moreover, as Japan does not have a certification system (like Ecocert), Japanese consumers have a poor knowledge of their meanings, but it gives foreign products a very good reputation for organic and natural products. However, the sole criterion of country of origin is not enough: the famous Made in France is no longer a sufficient argument to generate purchase, and most of the European products are often perceived as expensive with an equal quality.

b. The act of purchase

i. Selection criteria

The luxury industry which, boomed in the 80s and weathered the crisis of the 90s, and still records impressive sales today. Next to the good health of large and well-established brands, many mid-range brands entered the market of “casual luxury”, also called “affordable luxury”: offering slightly more upscale items, while maintaining reasonable prices and using communication codes of luxury brands and establishing specific universe.

Japanese consumers have a well-known craze for fashion, new and high-quality products. This observation remains valid and they are more and more looking increasingly for self-assertiveness and personal values in the act of buying. More individualistic and less motivated by a mere affiliation to a brand, they want to be free to draw in a wide variety of articles useful in the development of their own lifestyle, and do not hesitate to combine trends and influences. If this new trend of self-assertiveness reflects some form of individualism, the Japanese consumer is still heavily influenced by the trends of the group.

ii. Motivations and barriers

The originality of the product or its design must be accompanied by good quality and a profitable price ratio, and if the reputation of the brand remains an effective sales argument, it is not enough to motivate a purchase.

Japanese consumers like to receive detailed information at the time of purchase. The cosmetics commercials in women's magazines are usually full of scientific data, some of which are dedicated exclusively to beauty products. In addition, in their outlets they usually offer flyers or copiously illustrated catalogs in order to communicate on ingredients, origins, and efficacy. This requirement of detailed information explains the importance given to the role of beauty advisors and vendors.

The Japanese are also extremely attached to the quality of products: most are willing to pay dearly for an article they consider their needs. However, the quality will have to meet their expectations, and if not, the customer will be disappointed and most likely lost.

This behavior varies from one individual to another in such a way that it is hard to describe in a comprehensive manner the degree of premeditation. We can, however, admit that female customers have a more impulsive buying behavior, unlike men who buy in a more purposeful way. However, it is clear that Japanese consumers are very knowledgeable about new trends and fashionable brands, and give to it more credit.

The Japanese consumers are exceptionally well informed. Consumption is a hobby in itself, and there are an impressive number of magazines, ranging from high-end watches to pet accessories, along with a detailed review of the latest trendy shops. These magazines, which showcases new and original products are an important communication vehicle with highly targeted audiences.

c. Segmentation of demand

The idea is to define the variety of demand (customers) using distinctive criteria such as gender, socio-demographic, lifestyle and consumption style etc.

i. Teenagers and students

With a low income; the youth are hungry for innovation and generally look for products with colorful and flashy packaging. They are primarily interested in low-end products, as well as niche where European countries rank poorly against competitors such as China and Thailand. Young people are, therefore, a minor target compared to other categories. There are two main categories in this group:

- High school students (less than 18 years old - 15 million)

Compulsive consumers with low income; very sensitive to fashion trends.

➤ University students (18-22 years old - 7 million)

A small group of consumer but not to be overlooked because they dispose of a relatively high income, due to the part-time jobs most of them have.

ii. Women (parasite single, office ladies and housewives)

Japanese women between 20 and 65 are the main customers of cosmetics. However, we see that the core target of the cosmetic market is moving from young women (25-35 years) to women in their 40s, with higher income. Thus, some retailers such as Plaza Style do not hesitate to open stores that are specifically dedicated to them, offering highest quality products with a most discreet and luxurious packaging. There are 3 main categories in this group:

➤ « Parasite single » (20-34 years old - 5 million)

These young workers still live with their parents; they spend almost all of their salary on personal leisure, which gives them a very important purchasing power.

➤ Office ladies (22-35 years old - 20 million)

Childless active young urban women, consume a lot through their high purchasing power.

➤ Housewives (15 million)

Most women stop working at birth of first child; previously working as "office ladies", they are always attentive to new trends even if their concerns are not the same. As the keeper of the family budget, they ensure the well-being of the family.

iii. Men (salarymen, parasite single)

Japan is one of the most dynamic and earliest markets in the world for men's cosmetics. Apart from traditional products (hair products / shaving), we find many other products, such as face care or body care. Department stores like Isetan and Hankyu even opened a space dedicated to male cosmetics, and most of the major Japanese brands like Shiseido, for example, have launched specific lines devoted to them. Consumers, indeed, favor dedicated products instead of using women's cosmetics. They prefer products with discreet packaging, with more subdued colors (usually black / white / gray), with a less developed range. Thus, we find clarifying lotions, anti-blackhead patches, or moisturizers. Among men, the core target is those aged from 25 to 35 who, on the one hand are very concerned about their physical appearance, and on the other, benefit from a comfortable income. As the Japanese are getting married later and later, they can spend on their own welfare what they would have spent for their family (apartment / household equipment / cost of a child etc.). There are 2 main categories in this group:

➤ Salarymen (25-60 years old - 30 million)

Male employees who traditionally consume less than others, but nonetheless are increasingly receptive to advertising and messages specifically addressed to them.

➤ « Parasite single » (20-34 years old - 5 million)

Young workers who still live with their parents: they spend almost all of their salary in leisure and personal spending, which gives them a very important purchasing power.

iv. Seniors

The aging of the Japanese population combined with the strong purchasing power of retirees makes it an increasingly attractive consumer class. With more than 25% of the Japanese population that was over 65 years old in 2014, seniors represent a very significant category. As the “new seniors” pay much more attention to their appearance and well-being than their elders, they are becoming even more a target for cosmetics brands. With a strong purchasing power and specific needs (anti-aging), seniors are, therefore, a considerable potential.

d. Seasonality

The demand for cosmetics is not uniform throughout the year and is impacted by seasonal variations of prices and products. Sales depend on many external factors:

➤ Weather and external environment (humidity, temperature, UV index)

Sales of UV products are naturally higher during summer while products such as moisturizers are mostly sold during the winter.

➤ Celebrations and holidays

Japan has many festivals that encourage consumption, especially gift and presents.

➤ Fashion

Often, a new plant, fruit or other become suddenly fashionable (for example shea and olive for cosmetics, popcorn or pancake for food), it is necessary to be very responsive to it and constantly perform a competitive intelligence.

7. Market players

a. Key players

Among the competitors, there are three main categories: major Japanese groups (Shiseido, Kao, Kanebo, Kose, Pola Cosmetics) larger Western groups (Chanel, L'Oreal, Max Factor, Estée Lauder), organic / natural cosmetic companies (L'Occitane, Avene, Esthederm, Biotherm etc.).

b. Producers

Producers are numerous and offer finished goods and OEM. Most of the cosmetics producers are actually laboratories. The offers of European producers is particularly interesting and offer many organic or natural products, some of them with a certification (Cosmebio, Ecocert ...), all at very different prices.

c. Importers

Most Japanese importers, own the cosmetics manufacturing and sales license (see chapter [I.B.2.b](#)). They are numerous and fond of new concepts and new foreign brands. They are mostly specialized in a specific field (natural, organic, perfume, hair products, etc.).

d. Wholesaler

Very present in most distribution channels in Japan, their role is to store and distribute the goods. Indeed, the lacks of space, among other things, prevent retailers from having large stocks in their stores. Wholesalers allow them to respond quickly to consumer needs by providing replenishment. Many importers also act as wholesalers.

e. Agents and consulting firms

Acting on a commission basis, agents could be a company or an individual. They act as an intermediate, takes orders from existing customers, take new contacts on the field, perform market studies etc. Most of the time, agents only have an intermediate role and do not assume logistics or marketing roles.

f. Trade associations

There are many trade associations representing the interests of the cosmetics industry in Japan. They aim to defend this industry, but also to help its actors with advices, financing etc. The main associations in Japan are the Japan Cosmetic Industry Association, the Cosmetic Importers Association of Japan, and the Japan Make-up Association.

g. Typical forms of enterprise for those players

No official information is available on how many cosmetics manufacturers or importers exist in Japan. Industry sources estimate that there are about 4,000 companies with 130,000 brand items being distributed in Japan today. It is estimate that in the whole cosmetic industry (brand, laboratory, distributor, wholesaler, agent, importer, etc.) there is around 88% of SMEs.

SMEs in the cosmetic industry

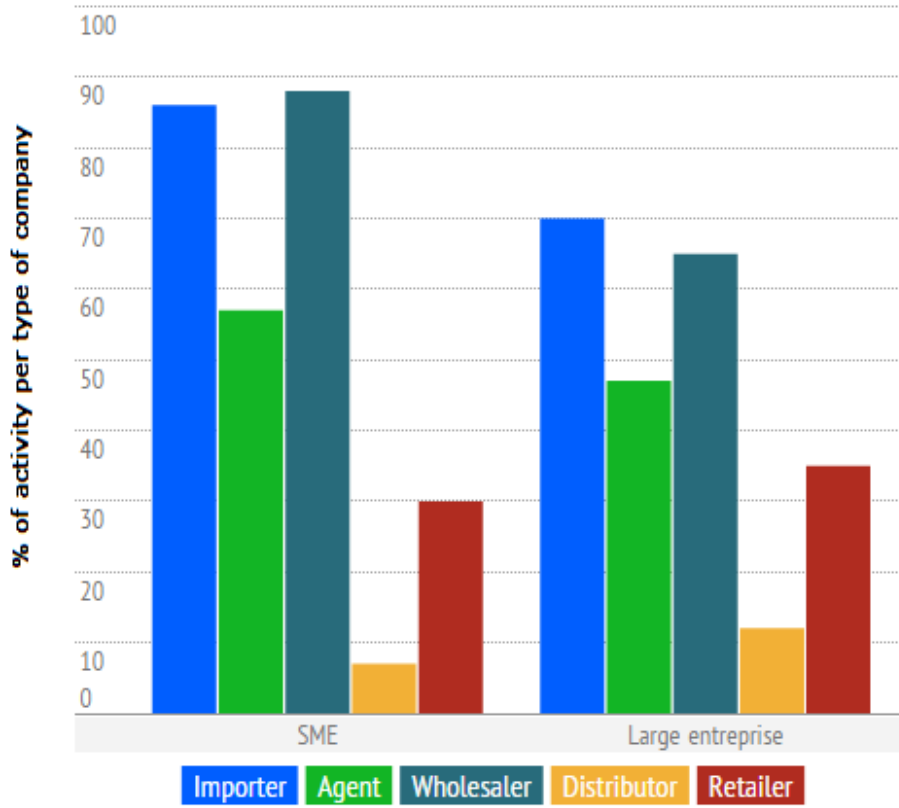


Source: Personal survey on 150 companies of the cosmetic industry

Even though only 12% of the cosmetic industry are large enterprises, in some sector they account for the majority its sales. The 5 main Japanese brands for instance (Shiseido, Kao, Kanebo, Kose and Pola Cosmetics) account for 45% of the total sales. However, in the case of foreign brands, most of the potential partners (importers, distributors, agent, etc.) are most likely to be an SME.

Thus, almost 90% of SMEs in the cosmetic industry are involved in wholesaling and importing activities.

Structure of the cosmetic industry



Source: Personal survey on 150 companies of the cosmetic industry

B. Market access

1. Beauty products as defined by the Japanese law

a. Legal definition of a cosmetic item

In Japan, cosmetics are regulated by the Ministry of Health, Labour and Welfare (MHLW) under the Pharmaceutical Affairs Law (PAL). For legal purposes, beauty products are divided into quasi-drugs and cosmetics.

i. Cosmetic from a legal point of view

The law defines cosmetics as “articles with mild action on the human body, which are intended to be applied to the human body through rubbing, sprinkling or other method, aiming to clean, beautify and increase the attractiveness, alter the appearance or to keep the skin or hair in good condition.” On the Japanese market, cosmetics are furthermore classified into 6 different categories, as below:

Item	Definition	HS Code
Perfume and eau de cologne	Perfume and eau de cologne	3303
Makeup cosmetics	Foundation creams, lipsticks, eye makeup, and others	3304.10, 2, 30, 91
Skin care cosmetics	Skin lotion, essence, skin milk, cleansing cream, and others	3304.99
Hair care products	Hair dye, shampoo, hair treatment and others	3305
Special-purpose cosmetics	Sunscreen, shaving cream and others	3307.10, 20, 30, 90
Cosmetic soaps	Soaps for cosmetics	3401.11, 20-010

ii. Quasi-drugs from a legal point of view

As stated above, beauty products are classified into two categories in Japan by the MHLW: cosmetics and quasi-drugs. Their regulations differ slightly but the difference between cosmetics and quasi-drugs remain ambiguous. In practice, this distinction is made based on differences in the effects assigned to each product. The distinction is also influenced by a set of criteria, such as the nature and the quantity of ingredients used, application method, dosage, and appearance of the product.

The PAL defines “Quasi-drug” (医薬部外品) as an item for the purpose of: (1) Preventing nausea and other discomfort. (2) Preventing heat rash, soreness, etc. (3) Encouraging hair growth or removing hair, or (4) Exterminating and preventing mice, flies, mosquitoes, fleas, etc. Among the quasi-drugs are deodorants, depilatories, hair growth treatments, hair dyes, perm and straightening products, as well as medicated cosmetics, such as whitening products, anti-aging products and oily skin or acne treatment products.

Besides, the item shall have mild effects on the human body, shall not be a utensil or device, and shall be designated by the MHLW based on these characteristics. The chapter [I.C.2.f](#) deals with the importation specificities of quasi-drugs.

2. Importing cosmetics to Japan

a. Importation flow

When considering selling products in Japan, the first step is to ensure that the products are in accordance with the law and will be legal in Japan. This assessment is performed on samples of the products by “testing and inspection facilities” designated by the MHLW, owned or contracted by the importer. It basically consists in checking the list of ingredients and analyzing the components of cosmetics to make sure it is in compliance with the PAL.

To better understand the full implications of the PAL, it is crucial to understand that importers of cosmetics assume all quality assurance and product liability for cosmetics. Consequently, it is necessary for them to be ready to take full responsibility for imported cosmetics through regulation analysis and safety testing, even though those items were already fully tested and are legal in the home country.

Once the formula has been checked and products have been tested, the importer will fill 3 forms: a Manufacture and Sales of Cosmetics Notification, a Cosmetics Import Notification for Manufacture and Sales and the manufacturer's or importer's brand name. Those forms will contain a record of the testing and inspection results verifying that the product does not contain any prohibited combination. The products are now ready to be sent to Japan where the importer will handle the clearance.

Advertising and labeling for cosmetics are regulated by law, which details labeling guidelines for containers or packaging, and certain items that may not appear in the labeling. Products that violate labeling regulations are deemed improperly labeled, and their sale is prohibited. The law also requires that the container, packaging or package inserts of cosmetics be specifically labeled to ensure appropriate use, handling, and quality, and clarify liability. All information must be clearly and explicitly expressed in Japanese, and labeling with false or potentially misleading statements and unapproved claims of effects/efficacy are prohibited. As importers assume all quality assurance and product liabilities, they impose an inspection of every single item to check the packaging, to add a label in Japanese and possibly repacking the product. This inspection procedure usually takes place in their own facilities. The products, now fully legal, can be dispatched to the company responsible for distribution (distributor, agent, etc.).

b. Notifications and licenses

It is entirely possible for an exporting company to handle the importation or distribution of its products themselves by opening a local subsidiary for example. In this case, the local company should follow specific regulations and procedures to be able to act as an importer or a distributor.

i. Approval for primary distribution by product category

The Cosmetics Standards (Ministerial Notification in September 2000) defines the ingredients that are subject to prohibition or restriction in cosmetics combinations, and those that are allowed in cosmetics combinations in specific ingredient groups. Antiseptics, ultraviolet ray absorbents and tar coloring are subject to a positive list that indicates the maximum mixture quantities. All other ingredients may be used in cosmetics combinations after the safety verification and selection of their own liability, except those covered by a negative list of combinations that either prohibits or limits them. In this regard, however, all ingredient names must be listed in the labeling.

If the provided ingredients do not violate the Cosmetics Standards and all the ingredients are indicated on the labeling, approval for primary distribution by product item is not required. However, products containing amounts of ingredients in excess of the notifiable limit, or new ingredients without a history of prior usage, or which contain non-disclosed ingredients, must obtain primary distribution approval for each product item.

ii. Cosmetics manufacturing and sales license

Under the provisions of the revised PAL, which went into effect as of June 1, 2009, when importing and distributing cosmetics, the importer must obtain a cosmetics manufacturing and sales license (化粧品製造販売許可). The sales business refers to the act of selling, renting, or lending of manufactured (including delegated to another, but not including manufacturing conducted for another) or imported cosmetics. Consequently, companies that do not possess their own manufacturing facilities may still obtain a license.

In order to obtain or renew this license, it is necessary to establish within the company a product safety and quality management system, consisting in naming three person in charge (a Marketing Supervisor, a Quality Supervisor and a Safety Control Supervisor) responsible for checking the compliance of imported cosmetics with Japanese regulations, quality assurance and product safety, these persons in charge must be independent of the sales section. One person can be appointed to those 3 responsibilities. These persons have to implement a set of standards called Good Quality Practice (GQP) and a Good Vigilance Practice (GVP), as well as undertake appropriate actions for safety management.

After obtaining a business code number in advance, applicants must include with their submission:

- a copy of the corporate registration (in the case of a corporation);
- a list of duty specifications;
- a medical certificate specifying the applicant;
- documents certifying the qualifications of the marketing supervisor-general;
- an employment contract of the marketing supervisor-general;
- documents disclosing the quality management system;
- documents disclosing the post-marketing safety management system;
- a floor plan of the business office and storage facility.

The cosmetics manufacturing and sales license applications are filed with the competent prefectural pharmaceutical affairs division with jurisdiction over the business office where the marketing supervisor-general serves and the licenses are to be renewed every five years.

iii. Notifications

After obtaining the cosmetics manufacturing and sales license but before initiating product importation, the importer must, as stated above, fill 3 notifications to the proper administrative agency:

Notification	Administrative agency responsible
Manufacture and Sales of Cosmetics Notification	Same prefecture as that which has granted the cosmetics manufacturing and sales license
Cosmetics Import Notification for Manufacture and Sales	Kanto-Shinetsu Regional Bureau of Health and Welfare (Tokyo) or the Kinki Regional Bureau of Health and Welfare (Osaka)
Manufacturer's or importer's brand name	Pharmaceuticals and Medical Devices Agency, Japan (Tokyo)

These notifications must either be accompanied by an ingredient listing from the importer's supplier or manufacturer or, if this list cannot be obtained, a record of the testing and inspection results confirming the product does not contain any prohibited ingredient combinations.

iv. Cosmetic manufacturer's license

According to the PAL, any importer that engages in the final packaging, labeling in the Japanese language, or storage of the imported product, is required to obtain a cosmetic manufacturer's license (化粧品製造許可). Therefore, even if the product was already labeled overseas in Japanese and no packing process is necessary, the importer of that product still must obtain a cosmetics manufacturer's license (in addition to obtaining a cosmetics manufacturing and sales license) because the product must be temporarily stored in a facility during the tests or clearance process. However, the cosmetic manufacturer's license should be obtained under a classification of "packaging, labeling, and storage only", excluding the case of manufacturing that is delegated to another licensed manufacturer.

Application for such a cosmetic manufacturer's license requires:

- an outline of the physical facility;
- a floor plan of the manufacturing facility;
- documents certifying the qualifications of the responsible engineer;
- the employment contract of the responsible engineer;
- a copy of the contract with a testing laboratory (when used)

v. Good Quality Practice (GQP) and Good Vigilance Practice (GVP)

As part of the GQP, importers are required to properly evaluate their production management and quality control of cosmetics to be distributed. It consists in establishing a procedures manual for the registration of product delivery, collection of information on the quality of products, processing of defective products, products' withdrawal from the market, etc. This standard aims at maintaining the quality of products that are marketed by the license holder.

Additionally, importers of cosmetics must establish systems that are capable of providing and retaining accurate information in response to consumer inquiries along with a monitoring system that handles customer complaints over product quality and product recalls, as required by the GVP standards. This consists in collecting information relating to the safety of products

provided by the competent authorities, professional organizations, manufacturers, retailers, consumers, researchers, etc. After analysis of these information and if deemed necessary (possibility of harmful effects caused by the products, for example), the importer may undertake corrective actions such as the withdrawal of products from the market or changing warnings and precautions for use on packaging. Furthermore, if the license holder becomes aware of any information indicating that one of the imported cosmetic product may have a harmful effect, they must report that fact to the MHLW within 30 days.

vi. Special case of quasi-drugs

As stated in chapter [I.C.2.a](#), the approval for primary distribution is not always necessary for cosmetics, however, this pre-approval is mandatory in the case of quasi-drugs because they contain active ingredients that need to be approved by the MHLW. Pre-approval is granted by the competent authorities if they judge that the product answered all sanitary requirements. Items such as formula, manufacturing method, application method and claimed effects are checked on this occasion.

Having an active ingredient approved by the MHLW allows the product to display its effectiveness for a result that has yet to be recognized. This allows companies to indicate that the product is "Medicated." This process takes approximately six month for the MHLW to carry out the appropriate examination.

vii. Requirements on aerosols products

Aerosol products (e.g., hair spray) must be separately inspected at the time of importation if the relevant products meet certain requirements specified under the High Pressure Gas Safety Act. However, they will be excluded from the application of the Act on condition that the product described precautions on usage for consumers and if written results of tests certifying that the products do not fall under the PAL are submitted to customs. If no such documentation is submitted or if the tests for any item fail, an inspection by the competent prefectural governor is required.

viii. Requirements on sunscreens

In Japan, sunscreens are classified as quasi-drugs, therefore, they require approval of their formulations, ingredients, use levels and functionalities, in addition to stability testing and a certificate showing no animal-derived materials were used. Product evaluations should be based on ISO 24442 in vivo testing and labeling. Also, an SPF of 50+, corresponding to PA++++, is the maximum level allowed on the label.

c. Labeling

When selling cosmetics, the PAL requires that the container, packaging, or package inserts of cosmetics to be labeled with a list of specified items, depending on the type of products and

container as listed in this chapter. Those laws aim to ensure appropriate usage, handling and quality of the product as well as clarify liabilities.

All the information must be expressed in Japanese and must be clearly and explicitly listed. Labeling with false or potentially misleading expressions, and unapproved claims of effect/efficacy in labeling are prohibited. The items that should be indicated for cosmetics are as follows:

Item	Description
Name and address of importer	Address of the office where the Marketing Supervisor serves (if this office is outside Japan: name and country of foreign approval holder; name and address of the nominated importer).
Brand name	Name for which notification has been posted for importation.
Manufacturing number or code	
List of ingredients	In principle, all ingredient names shall be listed on the label, in Japanese, and must be listed in descending order by quantity.
Expiration date	
Other items specified by the MHLW Ministerial Ordinance	

Note for ingredients: The Japan Cosmetic Industry Association (JCIA) has compiled a Japanese version of the "List of Cosmetic Ingredient Label Names" to be used in conjunction with the Pharmaceutical Affairs Act's requirement to list all ingredient names on the labeling (this list is available in Japanese only here: http://www.jcia.org/n/all_pdf/gul/mgl.pdf). If a new label name needs to be devised, then a request can be filed with the JCIA. Label names shall be, in principle, translated into Japanese from the International Nomenclature of Cosmetic Ingredients (INCI) names published by the Cosmetic, Toiletry, and Fragrance Association (CTFA) of the United States.

i. Act against Unjustifiable Premiums and Misleading Representations

The PAL prohibits any form of improper labeling with exaggerated or false labeling that misleads consumers about the nature or quality of a product. To prevent it, the Consumer Affairs Agency (CAA) may require documentation, for labeling that makes claims of superior quality etc., which attest those claims to be true. If the importer, distributor or retailer is unable to do so, those claims are considered to be a form of improper labeling and must be withdrawn. Vague or confusing labeling regarding the country of origin is also prohibited as a form of improper labeling.

Based on the Act, the industry of cosmetics has adopted the Fair Competition Code Concerning Representations of Cosmetics, the Fair Competition Code Concerning Representations of Cosmetics Soaps, and the Fair Competition Code Concerning Restrictions on Premium Offers in the Cosmetic Soap Industry, under certification by the Consumer Affairs Agency. While these are voluntary industry rules, when they are adopted based on the Act, any breach of the Fair

Competition Code is deemed to be as a breach of the PAL. The required labeling items for cosmetics and cosmetic soaps are as follows.

For cosmetics:

- Product name by type
- Brand name
- Name and address of primary distributor
- Content (weight or capacity)
- Country of origin
- Manufacturing number or code
- List of ingredients as required by the MHLW
- Expiration date, for a cosmetic designated by the MHLW
- Precautions on usage or storage
- Information contact

For soaps:

- Name and address of primary distributor
- Brand name
- The word "Soap"
- List of ingredients as required by the MHLW
- Manufacturing number or code
- Expiration date, for a designated cosmetic soap
- For those products manufactured by a frame mixing method, a term to that effect
- Standard weight per unit
- Country of origin

If you need any more information, here is the list of contacts:

- Cosmetic Fair Trade Council: +81-3-5472-2533
- Cosmetic Soaps Fair Trade Council: +81-3-3271-4301

ii. High Pressure Gas Safety Act and Fire Service Act

In the case of aerosol products and products deemed hazardous, the High Pressure Gas Safety Act and the Fire Service Act defines information to appear on the label, such as warnings, cautions, types and quantities of hazardous materials, and the size of the letters and other labeling practices. Here is an example of a typical representation:

<p>Keep away from fire and high temperatures</p> <p>This is combustible product using high-pressure gas. Be sure to observe the following:</p> <ol style="list-style-type: none">1. Do not use near flames or fire.2. Do not use large amounts in rooms with open flames.3. The container may burst if exposed to high temperatures. Do not place under direct sunlight or near fires or other locations of temperatures more than 40°C.4. Do not dispose of in incinerator.5. Be sure to use completely before disposal. <p>High Pressure Gas: Type of gas used (label name of gas)</p>

iii. Law for Promotion of Effective Utilization of Resources

Under the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging, when paper or plastic is used as a packaging material for the wrapping of individual product items, a material identifier mark must be displayed in at least one location on the side of the container, in order to promote sorted collection. Here is an example of typical representations for paper (left) and plastic (right):



Example of representations for paper and plastic

iv. Voluntary labeling by the Aerosol Industry Association of Japan

The Aerosol Industry Association of Japan has established labeling guidelines for aerosol products. This is an example of precautions on usage:

- Do not place heat-sensitive objects near heating devices, as there is a risk of high temperatures leading to rupturing.
- To dispose of the product, take it outdoors to a location away from all flames, and press the button until the hissing sound stops, in order to exhaust all the gas.

If you need any more information, here is the contact information:

Aerosol Industry Association of Japan: +81-3-3201-4047 <http://www.aiaj.or.jp>

d. Authorized claims

Here is the scope of recognized cosmetic effects under the Pharmaceutical Affairs Act:

1 Cleansing hair and scalp	29 Soften skin
2 Using fragrance to reduce unpleasant hair and scalp odors	30 Give gloss to skin
3 Keep hair and scalp healthy	31 Give luster to skin
4 Give moisture and sheen to hair	32 Make skin smooth
5 Moisturize hair and scalp	33 Make beards easier to shave
6 Keep hair and scalp moist	34 Condition skin after shaving
7 Make hair supple	35 Prevent rashes
8 Make hair easier to brush	36 Prevent sunburn
9 Keep hair lustrous	37 Prevent skin splotches and freckles resulting from sunburn
10 Give luster to hair	38 Impart fragrance

11 Stop dandruff and itching	39 Protect nails
12 Control dandruff and itching	40 Keep nails healthy
13 Supplement and maintain hair moisture and oil content	41 Moisten nails
14 Prevent hair breakage and frizzing	42 Prevent chapped lips
15 Improve and maintain hair pattern	43 Fill in lip creases
16 Prevent hair static electricity	44 Moisten lips
17 Cleanse dry skin (that has become dry as a result of cleansing)	45 Keep lips healthy
18 Prevent blemishes and rashes (by cleansing) (facial wash)	46 Protect lips, prevent dryness
19 Condition skin	47 Prevent lip roughness caused by dryness
20 Combat skin wrinkles	48 Make lips smooth
21 Keep dry skin supple	49 Prevent cavities (brushing teeth with toothpaste)
22 Prevent skin chapping	50 Whiten teeth (brushing teeth with toothpaste)
23 Tighten skin	51 Remove plaque (brushing teeth with toothpaste)
24 Moisten skin	52 Cleanse the mouth (toothpaste)
25 Supplement and preserve skin moisture and oil content	53 Prevent bad breath (toothpaste)
26 Keep skin soft	54 Remove tooth film (brushing teeth with toothpaste)
27 Protect the skin	55 Prevent plaque deposits (brushing teeth with toothpaste)
28 Protect skin dryness	56 Minimizing the appearance of fine lines due to dryness

Note: Parenthesized text refers to aspects of physical form during usage, not to the effect itself.

e. Costs of importation

i. Formula check and product analysis

Taking place in the testing laboratory of the importer, the price per item differs greatly depending on the laboratory, product type and complexity of the formula. However, the price is usually **between 30 000 JPY and 70 000 JPY** (200 euros and 500 euros).

The analysis itself aims to ensure the conformity of the products with the Japanese legislation. To do so, the following items are to be tested: preservatives, UV absorbents, anti-oxidants, heavy metals, Japanese legal color index colorants, prohibited ingredients. Also, some specific test could be performed: pH, viscosity, specific gravity, bacterial count, patch tests, stability tests and more.

ii. Notifications and customs clearance

The various notifications usually represent a cost of **20 000 JPY** (140 euros) for 5 items while the clearance is **between 5% and 10% of the invoice value**. This step is also handled by the importer, as the cosmetics manufacturing and sales license is required.

iii. Labeling, packing and product inspection

For 5 items, the price for the design of the label is around **20 000 JPY** (140 euros) while the printing is around **500 JPY** (3 euros) for 100 labels. Regarding the inspection and labeling, the price is around **70 JPY** (50 cent of euro). This step is also handled by the importer, as the cosmetic manufacturer's license is required.

iv. Special case of quasi-drugs

The importation of quasi-drugs is much more expensive than cosmetics, the whole price, including the various tests, notifications, approbations and so on, could be as high as **few million JPY** (tens of thousands of euros).

v. Tariff duties on cosmetics

Below is the list of tariffs imposed on cosmetics:

HS Code		Description	Rate of duty		
			General	WTO	Preferential
3303.00	000	Perfumes and toilet waters	5.30%	Free	Free
3304		Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), including sunscreen or suntan preparations; manicure or pedicure preparations			
	10	Lip make-up preparations	5.80%	Free	Free
	20	Eye make-up preparations	5.80%	Free	Free
	30	Manicure or pedicure preparations	6.60%	Free	Free
		Other			
	91	Powders, whether or not compressed	5.80%	Free	Free
	010	Toilet powders			
	090	Other			
	99	Other	5.80%	Free	Free
		Creams and other preparations with a basis of oil, fat or wax			
	011	Foundation creams			
	012	In liquid form			
	019	Other			
	090	Other			
3305		Preparation for use on the hair			
	10	Shampoos	5.80%	Free	Free
	20	Preparations for permanent waving or straightening	5.80%	Free	Free
	30	Hair lacquers	5.80%	Free	Free
	90	Other	5.80%	Free	Free
	010	Perfumed hair oil, cream, pomade and other preparations with a basis of oil, fat or wax			
		Other			
3307	090	Pre-shave, shaving or after-shaving preparations, personal deodorants, bath preparations, depilatories and other perfumery (excluding articles relevant to other items)			
	10	Pre-shave, shaving or after-shave preparations	6.70%	4.80%	Free
	20	Personal deodorants and antiperspirants	5.80%	3.90%	Free
	30	Perfumed bath salts and other bath preparations	5.80%	3.90%	Free
	90	Other			

	010	1. Preparations with a basis of oils, fats or waxes	5.80%	4.80%	Free
	090	2. Other	6.00%	4.00%	Free
3401		Soap; organic surface-active products and preparations for use as soap or washing the skin, in the form of liquid or cream and put up for retail sale			
	11	For toilet use (including medicated soap)	5.50%	Free	Free
	20	Soap in other forms			
	010	For toilet use (including medicated soap)	5.80%	Free	Free

Note 1:

- **General rate** is applicable only for the non-WTO member countries.
- **WTO rate** is applicable only for the WTO member countries which are not applicable for a preferential rate.
- **Preferential rate** is applicable only for the Least Developed Countries.

Note 2: Refer to "Customs Tariff Schedules of Japan" (<http://www.customs.go.jp/english/tariff/>) for a more complete interpretation of the tariff table and for more details on Economic Partnership Agreements (EPAs) with each country.

Note 3: Consumption Tax: CIF (Cost, Insurance, Freight) + Tariff duties × 8%

f. Contacts of Competent Authorities

Related regulations and control	Competent agencies	Contact/Website
Pharmaceutical Affairs Act	General Affairs Division, Pharmaceutical and Food Safety Bureau, Ministry of Health, Labour and Welfare (Pharmaceutical Affairs Act in general)	+81-3-5253-1111 http://www.mhlw.go.jp
	Evaluation and Licensing Division, Pharmaceutical and Food Safety Bureau, Ministry of Health, Labour and Welfare (Marketing approval procedures)	+81-3-5253-1111 http://www.mhlw.go.jp
High Pressure Gas Safety Act	Industrial Safety Division, Nuclear and Industrial Safety Agency, Ministry of Economy, Trade and Industry	+81-3501-1511 http://www.nisa.meti.go.jp
Fire Service Act	Fire and Disaster Management Agency Fire Station having jurisdiction over the address	+81-3-5253-5111 http://www.fdma.go.jp
Act against Unjustifiable Premiums and Misleading Representations	Representation Division, Consumer Affairs Agency	+81-3-3507-8800 http://www.caa.go.jp
Act on Specific Commercial Transactions	Consumer Economic Policy Division, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry	+81-3-3501-1511 http://www.meti.go.jp
Law for Promotion of Effective Utilization of Resources/Law for Promotion of Sorted Collection and Recycling of Containers and Packaging	Recycling Promotion Division, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry	+81-3-3501-1511 http://www.meti.go.jp
	Office of Recycling Promotion, Policy Planning Division, Waste Management and Recycling Department, Ministry of Environment	+81-3-3581-3351 http://www.env.go.jp

II. Trends and promising sectors

A. Tailor-made products

With the constant progress of science, technology, and biology, there are numerous opportunities to seize by applying a new discovery or a new technology to the cosmetic sector, in many different ways. As the cosmetic sector usually follows the global trends of consumption, it is not a surprise to observe the recent tendency of “tailor-made” products (or “made-for-me”) in cosmetics.

1. Design your own make-up

This tendency was first observed in the make-up sector. Foundation is probably the most requested customized product, since finding a perfect match can be tricky for some people, as foundation is all about finding the right shade, and a skin tone is not identical throughout the year, especially during winter and summer. Besides finding a perfect match, another reason to indulge in a customized product is the sheer pleasure of mixing colors to find an original shade that nobody else has. This represents even more possibilities to market such a service, from a very practical angle (finding the perfect shade for your actual skin tone) or from a “fun” side (mixing color to create new and original shade). Besides foundation, there is a growing list of other customized products, including lip gloss, lipstick, bronzer, concealer, powder, eye shadow, tinted moisturizer among others.

Shiseido first attracted attention in 2011 when they reveal their 'magic mirror': while most women have gone through the ordeal of buying a product at a beauty counter only to get home and discover that it does not look as they expected on them, the magic mirror allows them to virtually test it before the purchase. The mirror lets the customer test hundreds of different products in minutes with the help of a camera that captures the face and displays on the mirror the face with makeup on it. This was not yet a real tailor-made makeup but it was then much easier for consumers to test as many products as they want to find the perfect match for them, given them the feeling of buying the right product.

While there is a lot of key players abroad on this niche market (Prescriptives, Three Custom Colors, Giella Custom Blend Cosmetics etc.), this market is still new in Japan, and thus represents great opportunities, not only for brands and makers, but also for retailer who want to offer new kind of services, IT companies that are able to develop the technology and software, ingredients suppliers that can offer this kind of service without the need to market a makeup brand, etc.

2. DNA testing kits

In 2014, skin care companies turned to the DNA approach in providing tailored supplements in Japan. DNA testing kits and particularly those identifying disease predispositions, physical constitution, or personality, became very popular in Japan. Formerly, only available in

laboratories, the technology involved in the testing process has been developed and is now accessible to everyone in drugstores, convenience stores and online. After only one year, the DNA testing kits business is expected to grow in 2015, involving even more tailored services and goods. Amongst others, supplement companies see a great opportunity in providing tailored health-improving or slimming supplements.

The original purpose of DNA test in the cosmetic sector is to specifically identify an individual's character, and to associate this character to a set of related products. By doing so, the brand increases the impression of services and goods that are "made-for-me". This technique can be used for any kind of product and sector but is more necessary in specific markets like supplements that need to be individually tailored. Japan's overall supplement market worth around 1.21 trillion JPY as of 2013, so in 2015, this market will likely be buzzing with the "DNA approach". Even though, this niche is still recent, some Japan's leading cosmetics and supplement company already entered the market: DHC provide tailored slimming and skin-improving supplements; Fancl, targeting consumers over 50 years old by analyzing the risk of lifestyle-related illness with DNA testing kit and the best combination of supplements for each individual can be provided. It is highly likely that other major companies will launch similar services in 2015.

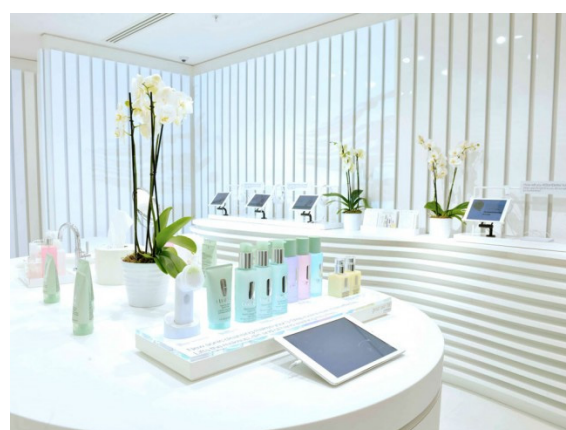
Supplement manufacturers see high potential in this new DNA market, but it can be much larger than "DNA supplements" and grow to involve various services and goods. In July 2014, cosmetic giant Pola relaunched its high-end skin care and cosmetics brand "Pola Apex" that features no fewer than 2.56 million combinations of skin care programmes. Each individual can find the correct one using the skin analyzer developed by Pola, based on the company's database of 15 million skin types. The advertising campaign emphasized the brand's slogan "analyzing your skin type and creating tailored skin care programme", which raised consumer interest and sales by 70% in the three firsts months. DNA testing kits are already in the middle of a fierce competition and the results in terms of sales and value can already be spotted despite the recentness of this technology.

Beyond supplement and skin care, a lot of opportunities can emerge from this technology with the right idea. For example, Japan's aging population may create more demand for meal delivery services, such as Meals on Wheels (deliver meals to individuals at home who are unable to purchase or prepare their own meals): identifying genes might be able to supply meals that suit an individual's health status. Furthermore retailers can start selling functional food and drinks, or ready meals designated to meet broadly different gene types, if more people know their gene types. But DNA testing kits can also be controversial, as the result may not be accurate for making decisions on health issues. A testing kit produced by US-based 23andMe was banned in the US in 2013 because it received many regulatory warnings from the Food and Drug Administration. This kit was then launched in the UK in December 2014. As seen in Japan's case,

however, DNA testing kits as well as a combination of the kit and related goods are highly appealing to consumers who desire tailored services and goods, and convey great business opportunities.

3. Skin lab

Besides the needs of personalized products, cosmetics brands have also begun to offer personalized services, through DNA testing kits as stated above for example, but also more personalized services and advice. This is usually done by beauty advisors that has to be extremely performant and highly qualify in Japan to answer the high expectations of consumers, and it might be done by “doctor style” beauty advisors soon, that provides advice depending on skin test performed in shops that look like laboratories.



Clinique Great Skin Lab, London

Clinique was the first to invest in this concept to offer consumers interactive personalized consultations. This pop-up store opened in October 2014 in London, providing retail space where customers can buy products and receive personalized skin consultations with Clinique’s expert along with a free sample of their custom-fit moisturizer. Before Clinique, many skin care brands had responded to the need for individualism by offering customers in-store consultancies to detect their skin type and match them with right products. It is the brands offering extras in the area of personalization such as laboratory tests, DNA test, or individually labeled products that will cater to the demand.

Not only this represents an opportunity for brands, and especially dermo-cosmetics brands that could invest in such concept stores, but also for IT and device company that can develop the tools to analyze the skin, as Sony recently did with its “Skin View Camera”, its first digital camera in image sensing that measures the texture, blotches, pores and color of the skin. This camera will be officially launched in March 2015 in Japan, and has been designed for customer services purposes at beauty treatment clinics. Features include the camera, and a software which runs on a tablet computer or a smartphone and shows to the user the color, pigmentation, degree of moistness, the condition of the pores etc.: a complete skin diagnostic. Furthermore, this will

allow them to check data stored on a cloud server with their smartphones and use it following the effects of a beauty treatment that they received at clinics.



Skin View Camera by Sony

B. Adaptation to new trends and old traditions

1. Social networks

Self-portrait photography, also known as selfie, is typically taken with a hand-held digital camera or camera phone, and is often shared on social networking services such as Facebook, Instagram, or Twitter. The rapid expansion of these social networks made them extremely popular for a wide variety of people (teenagers, politicians, celebrities etc.). They are usually flattering and made to appear casual, and cosmetic has definitively a role to play in it. Therefore, many brands recently invested in this trend by marketing their products with claims such as “selfie-ready”.

Thus, Dior launched in 2014 their new foundation: Diorskin Star, said to help women take the perfect selfie. It has been designed to capture natural light on the face and enhance the cheekbones and eyes while banishing dull skin, shine and wrinkles. Dior claims its new foundation makes users look instantly more photo-ready without the need for hours in front of the mirror.

This trend is, of course, even stronger in Japan and local players already reveal new ranges of cosmetics to answer this need. Kose recently presented work in mascara that “enhances social impressions”. They found that women wear mascara to have higher self-esteem, confidence and social status in Asia, as the shape of the eyes (enhanced by mascara) greatly matters in the region. Therefore, instead of solely focusing on volume and length like most of traditional

mascaras, they focused on establishing a curve, because, according to Kose, it makes the eyes look bigger and more open, and thus give support to establish a good social relationship, cultivate inner confidence and contribute to a woman's well-being. Other major players released selfie related products with or without using this word in their communications, like Shiseido who advertised 50 Lady Gaga selfies for their new make-up, without actually using the word selfie.

Being photogenic is all about light that the face reflects, and not only brands but also ingredient suppliers could benefit from this craze with new products or ingredients like Dior and its titanium-enriched silica beads that are supposed to "release maximum light reflecting potential". Being aware of trends and new behaviors on internet or daily life could help create opportunities, exactly like this selfie craze did and will continue to do in the coming years.

2. Seasonality and traditions

One of the most important aspects of Japanese culture that foreign companies have to clearly understand and adapt to is the great seasonality that impact the consumption throughout the year. Local players usually launch new products related to a specific event (sakura blooming, Christmas, etc.) or seasons, and Japanese consumers expect a brand to bring new products many times a year, to renew the interest they show for the brand. Thus, it is quite common to witness a new beer features a sakura taste or a cosmetic range of products which contains sakura extracts during the sakura blooming season in April to fit with the current celebrations. Year after year, it becomes harder and harder for any retail brand to be original and celebrate a season or an event with a totally new concept of product. Therefore, some of them get inspiration from an existing concept that they adapt to their own industry. A good example of this is the Christmas-inspired product trends, and especially the "beauty advent calendars".



Benefit Cosmetics, Beauty Advent Calendar

The business of advent calendars has always been a lucrative market, and with the rise of the “self-gifting” trend, new opportunities emerged for cosmetic brands. The version for grown-ups is a luxury style advent calendar which replaces chocolate with a cosmetic product. Nail polish brand Ciaté was one of the first beauty players to invest in the segment in 2012 with a 24 piece collection including nail art and sprinkles. Following the success of Ciaté, other brands like Dermalogica, Jo Malone, Benefit, The Body Shop and even Lancôme launched their own calendar. Two of the many advantages of this concept are to tap into nostalgic desires and to sell smaller items that don’t generally get the big headlines. So taking advantages of opportunities in unexpected spaces is key in today’s shifting prestige beauty market, and can easily arouse the curiosity of Japanese consumers and cater to their experimental needs.

During the holiday seasons, there are also more traditional seasonal products with a special feature: holiday flavors and fragrances (cinnamon, fir, nutmeg, etc.), special colors for make-up products (festive colors such as gold, silver and red alongside a Christmas themed), etc. For a new brand trying to invest in the Japanese market, these events are a perfect occasion to try new concepts and launch new ideas that can help consumers to discover the brand and gain

customers' loyalty. The advent calendar, for example, is a great opportunity to promote and distribute sample sized products in a very original way.

C. Adaptation to new behaviors and concerns

1. Hair care: the revival

Hair care is not a new market at all, but it recently became a very interesting and attractive one. Despite its relative contraction (current value sales of hair care declined slightly in 2013), it accounts for almost 20% of the whole cosmetics market in Japan and has recently had new developments. Amongst them: claims and innovations.

During the last few years, value sales of hair care have stagnated, however, the anti-ageing trend will give opportunities to increase sales in value and volume terms, by raising the use of specialty ingredients and by introducing multi-step regimes. Japan is set to embrace the anti-aging trend in hair care due to its aging population and the constant needs for novelty. Instead of new concepts, the trends are more about shifting the claims to adapt to the new behaviors and concerns of consumers. Therefore, except for the anti-ageing claim, the whole hair care market is increasingly aligning itself with the skin care sector: brightening and illuminating were the fastest growing claim in 2014 with the number of new products carrying this claim globally shooting up from 21% of all global haircare launches in 2010 to 46% in 2014. Botanical and herbal, moisturizing and hydrating are also on the rise. Manufacturers are trying to convince consumers that they adopt a haircare regimen to match their skin care regimen and they're doing this by using a new lexicon, learning from other categories and extending formats into new segments. The migration of color cosmetics and skin care claims and formats into hair care represents an important shift and emphasizing the relationship between the skin and hair might be a key to success in this sector.

The most interesting boom in hair care innovation recently is certainly the non-silicone products, that are virtually everywhere in Japan since Japan Gateway released their Reveur range and has been particularly successful with it. Many brands invested in this segment, even big names like Shiseido launched a non-silicone product within its very famous product line Tsubaki. In a country where shampoo and conditioners are the daily rules, innovation in product textures, concept and formulas are to be watched carefully and could represent an entry door for European brands that could provide such innovations.

2. “Look like yourself”

Women over 50 who use anti-aging care does not intend to look more than 5 or 7 years younger than they actually are. In fact, the purpose of most of them is to look healthier, and be honest and comfortable with their age, more than looking 20 years younger. Starting from this fact, some brands starting to avoid the use of terms like “anti”, and preferred its opposite: “pro”. Therefore, “pro-aging care” might be the next hit in cosmetics for senior: the beauty of being old instead of hiding it.

This new way of communicating with seniors have already been noticed by some beauty brands, which are bridging the gap providing positive claims rather than using “anti” messages that became outdated. Thus, L’Oreal uses the idea of “improves the appearance of skin quality” for its new “Skin Perfection Perk Up Cream” or the new “Charlotte’s Magic Cream” presented as “plumped-up finish.” This new trendy concept is also used by beauty oils that claim to restore the skin’s comfort for example.

We are still at the very beginning of this new approach, and that could create numerous opportunities for other sectors as well: this pro-aging idea is not an exclusive property of the skin care area and can easily be adapted into other segments such as make-up, with cosmetics that enhance, not cover (such as the Revitalizing Mineral Makeup launched by Origins), or product that make lips look smooth and shiny (like the Instant Light Natural Lip Perfector, released by Clarins). The hair care segment has also has many possibilities for products able to “smooth the hair surface” and restore shine such as the recent Schwarzkopf Essence Ultime Crystal Shine Shampoo. This concept together with the new wave of the “no make-up” look, is transforming the idea of ideal beauty. Natural looks are now more on-trend than ever and beauty companies need to be able to provide optimal solutions.

This philosophy of looking like yourself is all about a more natural looks. It has roots in various movements, especially in Japan with LOHAS (Lifestyle of Health and Sustainability) for example. It can explain the success of products less sophisticated and complicated, and more about feeling good about your body, like the hot cleansers or carbonic acid care products that are big in Japan right now. Stimulation, heat-up the body, natural look, enhance your actual beauty, etc. are all parts of the same trend that touch every kind of consumer, and, therefore, has to be watched very carefully as it is creating opportunities for the whole industry: brands, packaging, ingredients, retailers, etc.

3. Environment

Depending on various factors, new claims appear from time to time. Between 2011 and 2013, “anti-pollution” products grew 63% in Asia. Air pollution levels in Asia are very serious; especially in China and PM 2.5, cigarette smoke, emission from automotives and industrial smoke has opened up a new segment for cosmetic brands to develop skin care that works to keep the skin healthy in such conditions.



Pond's Pure White

All this pollution can influence surface barrier function and causing dryness or even acne, and beauty brands are catering to this concern. This claim appears in almost every sector of the cosmetic market: bath products (which are at the top of the claims list), hair care, skin care, etc. Although demonstrating smaller growth in comparison to other categories, skin care products are still the most likely category to carry an anti-pollution claim, with 3.7% of global launches in 2013 holding this, up from 3.2% in 2011. Eye products are also taking advantage of this trend, as anti-pollution claims have increased by 7.2% in 2014.

As urban lifestyles continue to grow around the world, so will anti-pollution products. They are usually more specific than a mere “anti-pollution” and usually focus on a particular effects: UV protector, detoxifying, BB elements, deep cleansing and isolating by forming an invisible film on skin surface that prevents pollutants from staying on and entering into the skin.

This recent shift has probably been triggered by widespread news coverage on PM2.5 matter in China. That is why these products are not popular in the West as the air quality is believed to be better. Therefore, it is an excellent example of a local trend that is hard to anticipate from Westerners that do not experience enough of the market. These types of environmental concerns as well as others are creating huge opportunities for the whole industry as soon as it is anticipated.

4. Invading new markets

Shiseido is known for its high-quality beauty products catering to many women all over the world. Now, the cosmetics company is extending their reach to children by setting up mock beauty salons to let children experience what the beauty industry has to offer. This is with the intention that they will enjoy the salon experience enough to encourage them to pursue a career in the industry (and perhaps in the company) when they grow up.



Shiseido Beauty Salon - KidZania

This was the first in-store beauty salon for children in Japan (opened in October 2013), with more to follow. The salon will offer a makeup camp as well as skin and nail care classes for kids held by cosmetics professionals. The cosmetics company uses this concept to target a group of consumers with a lot of purchasing power: due to their confidence and the amount of pocket money at their disposal, even primary school kids become lucrative consumers. In Japan, around 15% of child use cosmetics and on a global scale, children aged 9 and younger account for 9.5% of beauty and skin care purchases, while the age group of 10 to 15 accounts for 7.1%. In 2013, consumers between 9 and 15 years of age made purchases worth \$13.8 billion in total. By 2018, this figure is expected to rise to 16 billion euros. Children as a consumer group are, in fact, a force to be reckoned with when it comes to the beauty and cosmetics market, and Shiseido won't be the only one to invest in this segment.

But brands investing in this sector have to be very cautious. Indeed, children and adolescents are very susceptible to advertising and, for this reason, parents and consumer advocates alike often criticize product marketing targeting young people as irresponsible. The fashion and beauty industry, in particular, has been criticized for dictating a certain ideal of beauty, putting children under pressure to make themselves and their bodies perfect. Moreover, according to ÖKO-TEST, a German consumer magazine, children younger than 6 are not able to distinguish between advertising and real content in TV shows. It is only at the age of 8 to 10 years that they begin to question sales messages and take a critical attitude towards advertising claims. Scientific

studies led by the consumer magazine have proven that consumers take the brand awareness of childhood with them into their adult lives.

Kids market is not the only one to attract beauty brands, and another category of people are attracting more and more attention: men. With Chinese and Korean, Japanese males are the most active consumers of grooming products, and innovation in skin care is catering to this demand. As they enter middle and senior ages, Japanese men are paying more attention to their appearance and use more and more anti-aging care. As a result of this demand, innovation in wrinkle-prevention targeting this demographic has been stepped-up and the products are starting to dominate the shelves. As innovations and sales go on, some brands like Shiseido launched more expensive products like a face cream, around 8.000 JPY. For newcomers looking to tap into this market, face care is an obvious bet (especially cleansers), as well as shampoos, deodorants, razors, soaps, shower gel etc. Regarding the claims, anti-aging as well as brightening became a hit recently.

D. Global market trends

1. Multifunctional products

These past years, multifunctional products are one of the main trends in the cosmetic industry: the hurried consumers are increasingly preferring these cosmetics that require little effort and time. Multifunctional product is a vague term and represents a wide variety of products: a skin care that prevents aging, brightening of the skin, moisturize or have quick corrective properties, a mascara with special features or skin caring eye shadow, etc.

a. BB cream

When speaking of multifunctional products, the BB creams are definitely the most relevant cosmetic industry phenomenon of the past years. The Blemish Balm cream phenomenon originated in South Korea and spilled over to Japan thanks to the recommendation by a popular transvestite makeup artist, IKKO. BB creams provide multiple functions such as moisturizer, foundation, under-makeup, concealer and sunscreen. They treat various skin troubles like blemishes, roughness, discolorations, brown spots, open-pores and such while concealing those imperfections. So the possibility to replace a foundation, a moisturizer, an anti-aging cream, a UV-protection and even more with a single product was certainly the main reason which, in a very short time, made BB creams the most successful «all-in-one» cosmetic. Female consumers have shown appreciation, due to its many advantage: consumers spend less time to take care of their skin and can save money buying only one product. In Japan, the product is booming and every drugstore and variety store seems to have BB cream corner and it seems all the Japanese females are using at least one.

b. CC, DD, EE ...

To respond to the strong demand in the market, Japanese cosmetic manufacturers have introduced made-in-Japan BB creams formulated specifically to cater the needs of Japanese skin, and they also claim to have applied more "advanced" effects. Following the crave for BB creams, appeared CC creams, then DD creams, EE creams, hair BBs, male-specific BB and CC creams etc. They all offer various effect and focus on a particular concept: therefore DD creams, for example, could stand for: «*Daily Defense*», «*Dynamic Do-All*» or «*Dermatologically Defining*» according to the region of the body you turn to. The interesting point about this trend is the fact that contemporary consumers are much more interested in multifunctional products as they offer the opportunity of saving time rather than saving money.



Dr. Ci: Labo, Aqua-Collagen-Gel, Multifunctional product

c. Multifunctional in Japan

Local brand in Japan are extremely present in this market and some brands are specialized in this category. The main one is Dr. Ci. Labo with their extremely famous Aqua Collagen Gel that claim to offer six functionalities: toner, emulsion, beauty essence, make-up base, facial cream and facial mask. Other famous brands are Shin Nihonsei Yaku, T-Agent, Lotto Seiyaku, Jimos etc. Due to the fierce competition and the good implantation of these brands in Japan, it seems hard for any new European brand to succeed on this segment. Moreover, local players know exactly what function Japanese consumers are looking for and know well how to communicate and market these products. Another difficulty is due to the regulations: the Japanese Pharmaceutical Affairs Law prohibits effect promises, in addition to some ingredients that may be allowed in Europe. Therefore, it is hard to develop and market this type of product in Japan. In addition, an online presence is necessary: for example, cosmetics for men are booming trend, but due to shyness they prefer to shop online. However, multifunctional products starting to invade new product types and even mixing them, and European brands and laboratories could seize these opportunities or even create new ones: haircare with anti-ageing, health claims and added fragrance; color nail polishes with anti-ageing, skin care and added fragrance; skin care

benefits added into textiles and devices etc. Another major opportunity is in the B2B sector: cooperation in research and development and the supply of raw materials and production could be a key to the Japanese cosmetics market.

2. At-home cosmetic

Beauty salons are everywhere in Japan and are extremely popular. They offer a variety of services as do their counterpart in Europe: beauty treatments, care, etc. Most of them are based on devices and materials that used to be too expensive to purchase for a home usage, and were restricted to professionals only. But recently, they became affordable for any individual, and a new trend appeared: the “at-home” beauty salons.

a. Face masks

Face masks were one of the main drivers for the shift from salon to at-home beauty care. There has been an increase in at-home pampering in Japan, and this has seen salon visits reduced and more spent on treatments to be used in the home. This has seen increased popularity for face masks, the strongest performing category within skin care in 2013 (up by 8%).

Face masks used to be expensive (8,000 JPY for 4 masks, around 60 EUR) and therefore considered as premium. Nowadays, one can find face masks for only 1500 JPY for 42 masks (12 EUR). It became a very cheap product that everyone is using, even on a daily basis. They have various claims and usages: relaxing, detoxifying, anti-aging, etc. and offer various kind of experiences like the warming face masks.

From a premium products used only in beauty salons, face masks became a cheap product that everyone can use at home whenever they want. Recently, environmentally friendly textiles, bio-cellulose and hydro-gel formulations have evolved, not only to 3D designs, but to new areas of the body: feet, nails, hips, legs and even mask treatments for the breast. The routines have changed from morning masks to time-saving applications. There is still a lot of innovations in this segment and opportunities to be seized, but in view of the current average selling price, even a new, innovative and performant product will have to be cheap, which is hard for an exporter due to the various costs implied by importation.

b. Beauty devices

Beauty devices used to be found only in the professional networks like beauty salons. After face masks and massage devices, most of these beauty devices can now be purchase at reasonable prices by anyone for a home usage. As major industry players, particularly in Asia and North America, are investing in what they identified as one of the most promising markets in the future year, many reports from consulting firms anticipate exceptional growth for the next five years. Japanese women call them “Moba Beau”, a contraction for “mobile beauty devices” a category that includes both electric-powered devices, such as mist-sprayers, and non-electric instruments such as roller type tools used to stimulate blood circulation.

The category recently attracted a great deal of attention in Japan with major cosmetics and home appliances makers tapping into a fast growing market. The innovation in this segment is constant, and beauty devices became recently more compact and cheaper, making them affordable to everyone. Recently, Japanese cosmetics giant Shiseido collaborated with Panasonic for developing a special size of its Aqualabel Moisture Lotion to fit with the Ultrasonic Beauty Device Handy Mist produced by the electronic appliances maker. Panasonic Japan also launched a line called “Beauty Premium” in November 2014, which includes a new hairdryer with a technology that controls hair volume, a face mask-shaped steamer to enhance moisturizing and a warm-cool steamer with a vibrating traditional 'Guassha' massage plate to promote hydrated skin. Lastly, the renowned Japanese digital scale manufacturer Tanita, created a thickness meter; 'La Muse' to measure underarm fat thickness to keep on top of your diet. Finally, an interesting trend recently appeared that’s making a big impact in the office environment: devices that sit on your desk and pump out a nanomist of moisture with active ingredients while you work. They look like a smartphone and can be refilled from a small canister you keep in your desk drawer. There are clearly numerous opportunities to seize around this concept of beauty devices for the office environment.



Panasonic - NanoE

More than ever, beauty tools are promoting blood circulation, contoured lines as well as healthier skin overall. New age devices include SKII's “Stempower Magnetic stick”, which claims to increase the penetration of active ingredient - Niacinamide, three times more than when applying the substance by hand. This kind of products, as well as anti-aging devices, represent a huge potential, not to speak about connected beauty devices. There are also strong opportunities for manufacturers to develop mass-market options, not only for the face, but also for the eyes, the body, nails, and hair, for both women and men. In this particular segment, as both local and

international players are present, these opportunities seem reachable by any European companies with a great amount of innovation.

c. Connected beauty devices & 3D printing

Beauty devices are not about simply bringing professional tools home, but also about integrating more technologies and making the most of these IT trends. Therefore, cosmetics could not stand aside from the “connected” devices trend that has been invading the market since the advent of smartphones. Shiseido released in July 2014 an interesting product for smartphone users. The “Haku iDevice”, a facial beauty appliance that works with the iPhone, costs 10,800 JPY (around 80 euros) and comes with six facemasks. The appliance looks like a pair of earphones, with specially-designed electric pads. After inserting the cord into an iPhone’s earphone jack, the other side of the cord is connected to the electrode head that has to be placed on a mask. Then, the skin-lightening treatment can be controlled with an iPhone app. Weak electric currents are transmitted from the iPhone to the device’s electric pads for ten minutes, pushing the beauty fluid’s active ingredient into the skin, enabling it to absorb it much better, according to the firm.



Haku iDevice - Shiseido

This is a mere example of connected beauty devices and the possibility seems endless in this segment. Another excellent example is Maxell that developed a handy smartphone attachment lens, called “Memoret” that one can be used to take close-up high definition photos of skin to see closely its condition, texture, etc., in order to monitor problems, etc. Maxell is also developing a smart phone app called “Hada more” that analyzes the photos taken with Memoret through a unique algorithm supervised by a specialist. Through the app, the condition of the skin can be tracked based on parameters such as wrinkles, spots, elasticity, the condition of your pores, etc.



Memoret - Maxell

Another buzz word that appeared recently: 3D printing. There are currently 3 major domains for this technology in the beauty industry: replicating human tissue for product testing, packaging, and color cosmetic formulations. Although the technology has been around since the 1980s, it has only been incorporated into modern manufacturing processes in the past few years, thanks mainly to advances in the machinery. In fact, industry experts say it is the future for both design and manufacturing in cosmetics. As an example, a former Harvard Business School student, Grace Choi, recently invented a 3D 'Mink printer' which she says makes possible to generate color cosmetics for a fraction of the retail price. To create the make-up, a user chooses a shade of color they like from a photo or online for example and the software is used to convert the color into a computer-readable hex code which is then transferred to an image reading programme, like Photoshop, and clicks 'Print'. The inkjet handles the pigment, and the same raw material substrates can create any type of makeup, from powders to creams to lipsticks. According to Choi, this innovation at 150 euros, is cheaper in the long run for the consumer as brands can up the price for mixing pigment and the substrates together, and will also offer more choice as they will be able to do it from their home. Another promising innovation was made by a biotechnology firm; the 'Regenova' three-dimensional printer, developed with medical device manufacturer Shibuya Kogyo, can be used to turn living cell aggregates into artificial human tissue. That company, Cyfuse, was founded in 2010 by a Panasonic Corp. engineer and a regenerative medicine researcher. They designed this 3D printing systems for Japanese universities for research purposes for about 40 million JPY (around 300,000 euros) each, and plans to start overseas sales in 2015.

There are numerous example to prove that any IT company with a good skin related technology or a great concept can pretend to penetrate the market and succeed in Japan, as the consumers are greatly open to this kind of novelties, generating a huge demand.

E. New distribution channel

1. Beauty boxes

The beauty sampling trend took off five years ago with the launch of US-based firm Birchbox, which inspired the Berlin-based Glossybox to do the same. The concept involves a subscription service where customers sign up to receive samples of the latest skin care, perfume, and other cosmetics products on a monthly basis for around 10-15 euros. Despite the trend being huge in Europe and the US, it does not encounter the same success in Asia and especially in Japan. Analysts were questioning whether the market was over saturated with subscription services and in 2014, a number of these sampling companies in Southeast Asia had already shrunk from 51 to less than 20. It seems the main problem is the limited availability of beauty samples: the demand is there, but the supply is not. Ultimately, it boils down to the fact that the marketing budgets of cosmetics companies in Asia aren't that great.

To avoid this problem of supply, some companies tried a different concept. A good example is the famous My Little Box: a nice story of a French girl who one day sent an email to about 50 girlfriends and three years later had 800,000 subscribers to her My Little Paris e-newsletter and the best of French luxury brands bending over backwards to reach her subscribers. She is an excellent example of entrepreneurs who create their own opportunities without funding nor marketing. In 2011, My Little Paris launched its My Little Box product, which has been a huge success, doubling the company's revenues the first year. My Little Box is essentially an incarnation of what the newsletter offers: for 15.50 euros a month, subscribers get a themed box of goodies in the mail (My Little Christmas Box, My Little Detox Box). In 2013, My Little Box was launched in Japan, and has now 10,000 subscribers, and strong partnership with cosmetic and lifestyle companies. In order to avoid the supply issue, My Little Paris have their own cosmetic brand, "My Little Beauty" that they distribute with the monthly boxes. Therefore, they are less dependent to other brands.



The beauty boxes and other related concepts seem to echo the Japanese New Year custom of “Lucky bag” in which merchants make grab bags filled with unknown random contents and sell them for a substantial discount. But most of the company involved in this business have more difficulties’ to penetrate the market than in Europe. Vanity Trove, one of the leaders, tried many ways to expand in to Asia, including online retail, events, workshops, and even social media management services to pull figures up. Finally, they decided to focus on value, asset-driven businesses, like a social platform that can facilitate all of the above very easily: empower the consumers at the foundation level to activate the act of purchase.

When the first beauty boxes were launched, numerous companies launched their own in the US, Europe, and Asia, and even if the concept was globally successful, Asia is still reluctant to this concept. It is sure that the concept will still evolve in the coming years and may find its public in Asia and even in Japan, but this is a good example of worldwide trend that do not succeed in Asia, and has to be readjusted to the local taste. These companies, by their core activities, created opportunities for small brands, looking to an entry door to Japan. Indeed, as soon as the brands imported its products, they can be sold in Japan and they can as well distribute samples. Therefore, with the proper partnership, My Little Box, GlossyBox and others could put these samples in their boxes, making it much easier and cheaper (the price of importation) for any brand to reach a good audience.

2. Flash sales

Flash Sales have become an important part of the luxury retail landscape, popularized by US companies Groupon and Gilt Group and in Europe by Privalia Venta Directa, BuyVIP and Vente Privée. The model remains essentially the same: liquidate excess goods in limited supply, at a reduced price to a regulated network of members. The concept is interesting for both consumers that can have access to the best brands at up to 60% off, and for the brands to exhaust their stock. The model is becoming increasingly popular in Asia, and some serious investors in Japan invested in such websites (Softbank has invested over \$60 million in Gilt Japan) sending strong sign to this industry.

Glamour Sales website: glamour-sales.com

The other major player in this sector in Japan is Glamour Sales, launched in August 2009, raising \$13 million in the first round of financing, including contributions from AXA Private Equity and Mandra Capital, they have now even expanded in to China. To suit the high standards of quality of Japanese consumers, Glamour Sales focus on providing the best service possible by shooting themselves the pictures of products they sell, and accept both major brands as well as newcomers. This particular point could be interesting for any European exporters that want to test the Japanese market. As for beauty boxes, any brand could import their products to Japan then distribute them to a website like Glamour Sales. Not only will the website sell the products (around 1 – 3 millions JPY a week) and allow the brand to be discovered by their members, but they will also provide at the end of the sale, a complete report that act as a real and concrete market study. This opportunity represents a very clever way to assess the market, sell products and get a full market study for a very reasonable price.

3. Internet & social media

a. @Cosme: all-in-one e-commerce, marketing tool, trend watch, etc.

When it comes to cosmetics and beauty products online, there is only one review portal that comes to mind: @cosme (pronounced “atto kosume”). The website opened in December 1999 and since then it has accumulated over 11 million reviews and is used by one in three Japanese women in their 20s and 30s. With their 2.9 million users and over 27,000 brands referenced, it is an incredible resource to view product rankings, purchase beauty items and is the best trend tool for global beauty brands doing business in Japan.

日本最大のコスメ・美容の総合サイト@cosme (アットコスメ) によろこそ！ カテゴリ一覧 サイトマップ 会員登録 ログイン

@cosme ランキング ブランド ブログ Q&A お買物 働く その他

NEW!! 5月のスタンプカード スタート

キーワードを入力してください 検索

コスメ ▶ スキンケア・基礎化粧品 ▶ 毛穴 ▶ うるおい
美容 ▶ ベースメイク ▶ ニキビ ▶ アンチエイジング
カテゴリ ▶ メイクアップ ▶ 美白

ビューティポイント デートメイク プレゼント 化粧ポーチ シミ撃退

ただいまのクチコミ
10,531,622件
最新クチコミをみる
クチコミする

トリートメント カラーコントロールクッション (CCクッション)
ひと塗りで手放せない肌へ。その答えは、クッションの中に！ AMOREPACIFIC
発売を記念して、“CCクッション”現品100名様にプレゼント！

更新情報 ビューティニュース
魅せ肌になれるNo1スクラブ
【色の選び方】 チーク&リップ編
未来のシミが見える？あと2日開催
メイクするときに意識することは？
うっかり日焼けに嗨！UVパウダー
ロクシタンほか採用情報公開中！
更新情報をもっとみる

ログイン パスワードを忘れた方
メールアドレス
パスワード
 次回から自動でログイン

必見★跡ものパーツ別テク
全身スベスベボディに
お悩み解決で商品券GET
シミ&くすみ撃退テク指南

注目のクチコミランキング
ポディスタクラブの1位は？
Oh! Baby
パウマス
Oh! Baby
全身スベスベ

【注目】 現品セット100名プレゼント！“自発保水”で大人の艶肌へ

@cosme website: www.cosme.net

Many Japanese women have an endless appetite for greater beauty, and to satisfy this need, many cosmetic brands launch new products more often than in Europe. Industry journal Syogyo announced that in the first half of year 2012, the number of newly released cosmetic products reached 1849, with an average price of 4132 JPY (about 37 euros). The website is, therefore, a useful tool to decide what to buy and to spot the latest trend in this jungle of novelties. The site was initially founded to accumulate purchasing data across all cosmetics makers, but the company's co-founder explained that there is a limit to CRM as it only allows brands to collect information about existing purchasers. What brands really want is data about those who did not buy their products, which is essentially unreachable since that information belongs to competitors. @Cosme have successfully built a solution for this problem. The core business of @Cosme is advertising, which accounts for roughly 25% of its profit, with e-commerce and retail stores just behind. @Cosme have opened six retail stores in popular locations such as Shinjuku and Ikebukuro to further engage consumers' online and offline purchasing behaviors. Women can see the latest popular products on @Cosme, and visit the retail store to try them out and hopefully purchase them. @Cosme is very powerful in influencing purchasing decisions of beauty conscious consumers — so much so, in fact, that it is not uncommon to find products with things like “No.1 on @Cosme” on its package some brands are also making commercial ads to simply state that mention, proving the amazing power of the website.

「冗談ぬきで10才若返ったね!」
なんて言われたら...
やっぱり嬉しいもんですよ

第1位
オールインワン化粧品部門
2011年4月30日(3ヶ月)

mark a leaf
パーフェクトデイリーワン

徹底保湿 & 正しい角質ケア で導く
輝くような透明肌へ

透明肌を求める女性
98%の方に

ノーベル賞受賞成分
E G F 配合
優れた6種の美肌成分。
さらに15種の国産100%植物成分を加えて、ぎゅっと凝縮!

洗顔後、これ1本で完了!
簡単オールインワンジェル

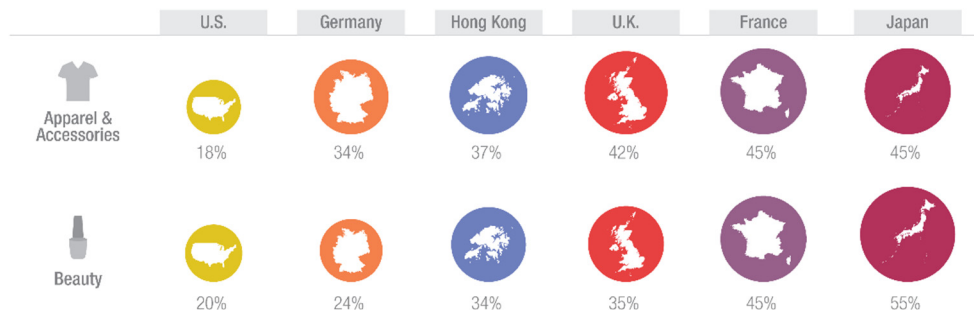
化粧水 乳液 美容液 クリーム 化粧下地 1本5役!

Mark a leaf – Perfect Daily One

In Japan, 55% of consumers research beauty products online before making a purchase and 45% research apparel and accessories before buying. It is most probably the highest rate, and makes user-generated content extremely valuable. This content on @Cosme is robust: the average brand has 49,000 followers and 170 reviews per product on @Cosme.

Content and Commerce: Percent of Consumers Who Research Online Before Purchasing

By Market
July 2012



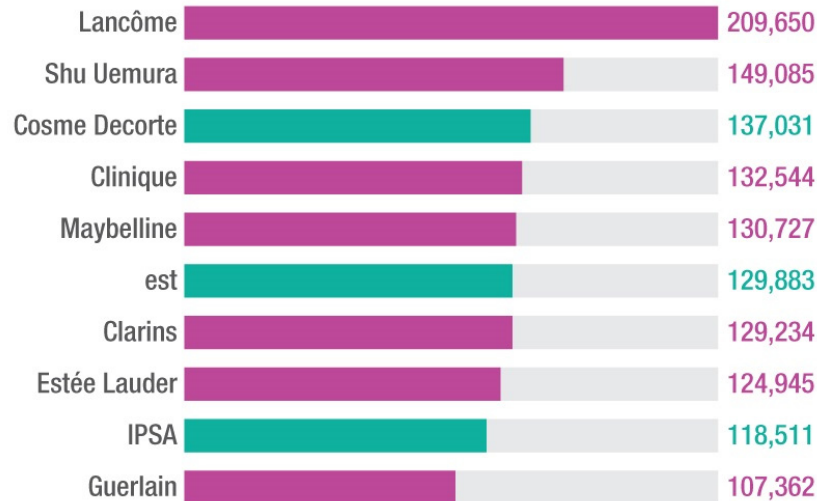
Source: L2 Inc.

Furthermore, global brands tend to have larger fan bases that are on average 1.5x those of local brands. Seven of the top ten brands with the largest @Cosme fan bases are global. Local brands have higher engagement on the platform (1.5x that of global brands), but local brands can differentiate themselves and up their engagement with call-to-action ads on the platform and brand page customization. @Cosme is the most popular destination for mobile ads among Beauty brands.

Japan Beauty: Top 10 Brands on Cosme

Number of Followers

September 2014, n=71 ■ Global ■ Local

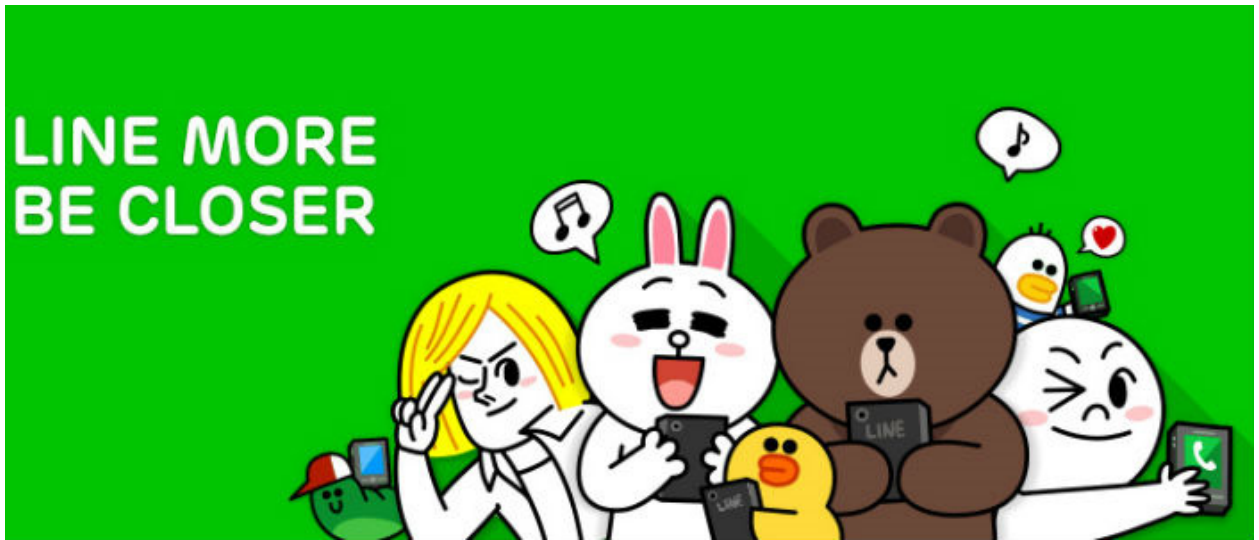


Source: L2 Inc.

The success of this website is great proof of the possibility of success for brands and IT companies on internet in Japan. Numerous opportunities are created by the portal, but it could also represent a danger for brands: brands live and die by their reviews on @cosme. However, the website is, above all, the best possible tool for marketing, product development, trend watching, etc. and the website makes it easy by editing rankings and trends and making it available for everyone. Finally, to echo [II.E.2](#), @cosme recently made the acquisition of GlossyBox, showing again the great potential of beauty boxes in Japan.

b. Monetization on social media apps

LINE Messenger, born right after the March 2011 tragedy in Japan to facilitate communication between people, gained 50 million users in under a year. By comparison, Facebook took three years to get 58 million users, according to Reuters. The app is now used by more than 54 million people in Japan and around 500 million worldwide. The company mainly deals with an application that promotes instant messaging on smartphones and personal computers, enabling users to exchange and gain access to graphics, video and audio media on online platforms ... and advertisement as well. In an effort to push the mobile commerce market in Southeast Asia, Line' has plans to influence flash sales across markets including cosmetics. 'Flash sales' (see chapter [II.E.2](#)) give consumers access to goods on Line's mobile platform, including items such as cosmetics and Line's own branded merchandise. It is becoming an increasingly popular way to sell products online in Asia because the direct-to-customer approach allows companies to save costs on excess inventory and distribution to third-party vendors.



Line commercial

As a strong online presence is key for the beauty industry in Asia and especially in Japan, Shiseido launched its Za range earlier this year via a digital-heavy campaign, a strategy the company describes as necessary for a contemporary beauty brand to connect with a target audience. The personal care giant's campaign was centered around a Facebook application, the launch of which focused on the idea of communicable beauty sharing among female friends, with the app dubbed 'BFFs' (best friends forever).

Line and basically any SNS represents endless opportunities for brands with a high sense of creativity and a good knowledge of the Japanese culture. While an SNS campaign could represent a high cost, the alternatives on Line is really interesting since they rely only on advertising like SNS but also on monetization of stickers, ads, and now flash sales. Another interesting opportunity that may sound pointless to most of companies outside of Japan, creating an "avatar" of the brand and turning it into a sticker on Line, could help a brand reach customers quickly. These stickers are extremely popular in Japan (DIY sticker store brought in US\$1.5 million in sales during its first month) and helped Line to become what it is today.

F. Industry trends

1. Packaging

The look and feel of packaging is becoming increasingly important for consumers who are demanding a more interactive sensorial experience. Especially in the field of luxury cosmetics, product efficiency is still a key driver triggering the act of purchasing, but it is not anymore the key factor determining customer loyalty. The notion of efficiency is not enough for customers nowadays for whom texture is becoming a differentiating factor when choosing a product. Beyond efficiency, a comfortable application, a surprise effect generated by a visual appearance of the product, a specific texture, and a sophisticated perfume can secure the customer loyalty. But this sensorial experience is only a part of what packaging can offer.

As consumers today expect more at every price point, the distinctions among mass, “masstige” and luxury products are shifting, and the premium feel is no longer reserved for high-end beauty packaging. For a lot of cosmetics and personal care products, the packaging is essential as it can help position a product, engage the customer and convey the correct, or incorrect, message to the consumer. But it can also have an influence on how a product is formulated: airless packaging, for example, has seen big growth in premium skin care as demand increases to protect products from oxidation and the rising trend of organic products. Packaging has a strong impact on customers as well as the products itself and therefore, on the maker: by having an anti-oxygen pack, for example, the formulation can be changed and there is less need for preservatives which helps clean pack claims about a product too. The premium trend in packaging has shifted from high-end products to the idea that every pack tier should offer an element of luxury, therefore every single piece of packaging should offer a sensorial experience, be well-designed regarding the formulation and claims, and be functional.

A recent study revealed that in Europe, consumers do not identify themselves or products by price point but by the sensorial experience and functionality that a product should offer. For example, a cleanser should bring a positive experience foster by a packaging that can be operated with one hand, dispense the proper amount of product, etc. A brightening cream should be perceived as effective and luxurious and, therefore, are expected to limit waste, control dispensing and have scientific efficacy. There is also another example, but the idea is that for every step of the routine, the packaging is of utmost importance regarding the texture, feeling, design, functional operation etc., not only for luxury products, but for “masstige” and mass products as well.

Finally, to show that innovation is constant in this industry and could represent opportunities, a nanotech company invented a tracker that can be applied to any product for a cheap price to tackle the issue of counterfeit goods. Basically, the system is based on a platform that companies use to identify and track counterfeit products in the supply chain and at retail points. The tracker can be put into fiber, plastics and inks to determine a product’s authenticity, and by doing so, is perfect to be applied to any packaging. The application in the beauty industry is enormous, and this technology is a mere example of all innovations in this industry.

2. Ingredients: differentiation and innovation

The ingredient industry is extremely mature and thus hard to penetrate for a newcomer without a strong novelty or a very innovative concept. However, as trend’s life-expectancy in Japan is short, innovative (and not necessarily new) ingredients become suddenly very popular, some for their efficiency, some for their popularity in other industries, and some for what they inspire in customers.

a. Carbonic acid

In the last several years, carbonic acid has taken beauty scene in Japan by storm. It all started with popular carbonated-water diets and recently moved to carbonated bath salts, hair and scalp treatments, and in all cosmetics segments. From carbonated face washes to machines that blow bubbles, carbonic acid is everywhere on the beauty shelves. According to a recent study (by Trend Souken), 54 percent of women interviewed said that they had tried a carbonated beauty product. The report indicates that Japanese women are ready to embrace beauty products injected with carbonic acid in a big way, with 87 percent of the 501 women questioned responding that they were interested in becoming bubblier beauties.

Carbonic acid's basic function is to lift dirt from pores and promote healthy circulation. Thus, cell turnover is improved, dullness and spots, as well as sagging and swelling, are fought.

b. EGF

Epidermal Growth Factor, or EGF (human oligopeptide-1), used to be extremely expensive (more than 80 million yen a gram). The price has gradually come down, and since 2010, affordable EGF cosmetics have been flying off the shelves. This ingredient is very popular and there is still new ranges entirely based on EGF.

EGF has a huge impact on skin cell turnover, encourages elasticity, and is expected to be a good anti-ageing ingredient.



Haritsuya EGF range - Copyright: jp-hotnow

c. Astaxanthin

Astaxanthin is a carotenoid found in algae, shrimp, lobster, crab and salmon, and is responsible for turning salmon, crab, lobster and shrimp flesh pink. Scientists theorize astaxanthin helps provide the endurance these animals need to swim upstream. For humans, astaxanthin is a powerful antioxidant, it is said to prevent dryness, spots, and wrinkles while boosting elasticity

and making skin look brighter. Anti-aging skin care among Japanese women is extremely popular, and much of the fervor has been directed towards antioxidant component such as astaxanthin, which had already been enjoying solid popularity prior to the recent boom. Kose, and it is not the only one, recently launched an entire cosmetic range based on astaxanthin that is already a best seller: Astablanc.

d. Traditions & Innovations

Besides the above ingredients, there are many others that became popular for various reasons: innovation, tradition, curiosity, etc. Among them, there is for example rice that is currently becoming more popular in Japan due to its great antioxidant and protective properties, placenta also gaining its momentum since it became affordable for its various effects on the skin (including brightening, wrinkles, dullness, dryness, elasticity, resilience, and more). Another interesting concept is the one used by Shiseido: a perfume called Zen that contains a rose scent developed in cooperation with the NASA in space. This kind of concept is, of course, hard to consider for a PME, but they are still excellent examples of opportunities in the ingredients industry and a proof that even in a such mature and stable industry, there is always a way to create trends and opportunities by innovation, by creating an interesting concept that arouse curiosity, by using an ingredient already popular in food or other segments, etc.

III. Overcoming the main obstacles

Going international is a major opportunity for any SME, but it also represents obstacles and difficulties on many different stages: financial, importation/exportation, partnership, local laws on business incorporation, cultural differences creating marketing issues, etc. The list is long and depends mostly on the target country. Japan is no exception, far from it, and this chapter will go through the main ones, providing answers and ways to overcome them as much as possible.

A. Support for export credit and services

The first obstacle which comes to mind when considering export is the financial aspect. On both local scale and European scale, there are a lot of different entities dedicated to help companies, providing advice, how-to, and also according export credit. But due to information gaps and asymmetries, many smaller enterprises may be unaware of the export credit products and services available.

1. Local and European organisations: export credit & services

A majority of export credit agencies in EU countries make special efforts to raise awareness among SMEs about official export credit programmes. Information on export credit products and export support services for SMEs tends to be disseminated through public seminars, private events (e.g. trade shows), printed media and the Internet.

Most of the time, an export credit is an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time. Export credits are generally divided into short-term (usually under two years), medium-term (usually two to five years) and long-term (usually over five years). It is virtually impossible to list all these organisations, as it could be provided by a county, a district, a country, or the European Union itself. But there is a great resource to find information and contact point for each of them: the SME Internationalisation Portal (<https://webgate.ec.europa.eu/smeip/>). A simple request with Japan as the target country got more than 200 results. Most of them offers services such as seminar, round-table, matchmaking event, export credit, support for business set-up, etc. It is a very valuable tool that has to be considered by any European exporter as it could help companies in many various ways.

2. Organisations present in Japan to help EU SMEs

Organisations that help SMEs are also present in Japan, and thus are able to provide very actual and accurate information on laws, markets, local players, and so on. To give the two most convincing examples: the EEN (EU side) and the JETRO (Japanese side).

With over 600 partner organisations located in 52 countries, the EEN (Enterprise Europe Network) is the largest network of contact points providing information and support for SMEs in the fields of international business cooperation, innovation, knowledge and technology transfer and cooperation in EU programmes. The Network is funded by the European Commission and its services are free of charge. As Japan representative of the Network, The EU-Japan Centre is providing free EEN services in cooperation with EU EEN partnering organisations (more information can be found on <http://www.een-japan.eu>). Apart from the EEN, the EU-Japan Centre is a valuable stop for any EU exporters, as they provide various services, such as: logistical support, training programme, a Tax & Procurement helpdesk, etc.

On the Japanese side, JETRO, or the Japan External Trade Organization, is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. JETRO provide various services and information: incentive programmes, market studies on various sector, regional information, business set up information, seminars, etc. For information on Japanese market as well as foreign trade investment, JETRO is one of the organisations that any European exporter should contact: <http://www.jetro.go.jp/en>.

3. Cosmetics trade and importation associations

Besides JETRO, there is also various Japanese associations specialized in cosmetics, here is a list of them with their contact details:

Name	Contact	URL
Nishi-nihon Cosmetics Industry Association	+81-6-6941-2093	http://www.wj-cosme.jp/
Cosmetic Importers' Association of Japan	+81-3-3560-3041	http://www.ciaj.gr.jp/
Cosmetic Soaps FairTrade Council	+81-3-3271-4301	http://www.jsda.org/w/index.html
Detergents , Soaps Fair Trade Council	+81-3-3271-4301	http://www.jsda.org/w/index.html
Dentrifrice FairTrade Council	+81-3-3249-2511	http://www.hamigaki.gr.jp
Japan Cosmetic Industry Association	+81-3-5472-2530	http://www.jcia.org/
Japan Cosmetic Suppliers Association	+81-3-3662-2562	http://jcsa.ne.jp/
National Federation of Cosmetic Retail Cooperative	+81-3-3861-7733	http://www.cosme.or.jp/index.html
Direct Selling Cosmetic Manufacture's Association of Japan	+81-3-5472-2534	http://www.hoshokyo.org/
Japan Cosmetic Wholesalers Association	+81-3-3866-6753	http://park8.wakwak.com/
West-Japan Cosmetic Industry Association	+81-6-6941-2093	http://www.wj-cosme.jp/
Japan Organic Cosmetics Organization	+81-50-5534-2582	http://www.j-organiccosme.org/
Japan Organic Cosmetics Association	+81-80-3311-9107	http://joca.jp/
Pharmaceuticals and Medical Devices Agency (PMDA)	+81-3-3506-9601	http://www.pmda.go.jp/index.html

List of contact details of Japanese cosmetic associations

4. Japan Cosmetic Center: a great example of international cooperation

The JCC (Japan Cosmetic Center) has a simple, yet fundamental, purpose: “building an international cosmetic industry cluster that is earth-friendly and safe for the people, and utilizes local resources and top notch technology”. By utilizing the Friendship Agreement with Cosmetic Valley (cosmetic industry cluster located in France) to gather Cosmetic Industry corporations and organizations centered around Karatsu City and Genkai town in order to produce safe, high quality cosmetic products with the abundant natural resources Japan has to offer, as well as their skilled technology. Once produced, distributing those products in order to realize their goal of becoming a Cosmetic Cluster and “Cosmopolitan” City in the on-growing Asian market.

The JCC was created in 2013 under the impulsion of Mister Alban Muller, an outstanding individual owning a renowned cosmetic laboratory in France (Alban Muller International) famous for developing and manufacturing ingredients and skin care products



from plants. This is a great example of someone that master the Japanese culture, customs and the complexity of its cosmetic market. This creator of opportunities is actually the chairman of the JCC and strives to establish an Industry-University-Government Collaborative Network for supporting businesses in the cosmetics industry; network with overseas organizations and businesses starting with France; develop a global market centered in Asia; and conduct research and development into new natural ingredients and high quality products. To achieve this, 4 main projects have been defined:

Project 1: Business Exchange

- Cosmetic Valley Business Promotions (Participate in French Expos and Shows, Sales Negotiations and Contracts, Research Information and Business Matching Support)
- The Herboretum, Various Technological Support (Seminars on Natural resources and utilizing technology, Sending information about Karatsu and Genkai resources to CV, Hosting groups from Cosmetic Valley, Business Negotiations)

Project 2: Business Support

- Developing Senary Business Model (Discover and Support New Startup Companies, Assist with support from Government bodies, Hold business exchanges across all sectors of the market)
- Business Matching Support (Support partnerships between JCC members for production and services, Support negotiations for France and Asian markets)
- Open Labs, Incubator Research Facility Support (Arrange for Open Labs and Incubator research facilities, New Business Support, Management Guidance for New Corporations)

Project 3: Research & Development

- Base for Revolutionary Cosmetic R&D (Network Projects for Universities and Related Facilities in Production, Research natural raw materials, Develop Safe, Effective, High-Quality Products through research, testing and evidence)
- Research seeds for producing Naturally sustaining Raw Materials (Discover and Research Raw Material Seeds within Saga, Network with producers, Gather and Publish Information, Analyze ingredients and research functions to determine utility of raw materials)

Project 4: Gathering & Releasing Information / PR

- Public Relations (Manage Specialized JCC website, Publications and Articles, Plan and Manage Expositions and Shows, Execute Seminars, etc.)
- Research Asian Market, Various Support (Gather & Analyze information for each Asian countries trends, regulations and international trade, Publish PR to Asian market, Support companies looking to expand)

Here is the contact details of the JCC:

- Japan Cosmetic Center: 1-1 Nishijounai Karatsu-Shi, Saga-ken 847-8511 JAPAN
- Office: 1 Minamijounai Karatsu-shi, Saga-ken 847-8013 JAPAN Oteguchi Center Bldg 6F
TEL +81-(0)955-53-7148; FAX +81-(0)955-72-9203; Email info@jcc-k.com

B. Finding and sealing a new partnership

Finding a partner, and especially a distributor or a wholesaler, is the main objective of most of EU SMEs in Japan. This chapter will provide advices and best practice to do so, but there is no magic solution to achieve it: having a great concept, irreproachable products, patents, notoriety, etc., will be of much help of course, but, contrary to other markets, this is just the basic in Japan, and communication as well as cultural knowledge and understanding are also mandatory.

1. How and where to search

Japanese buyers generally prefer to explore and identify potential partner themselves. Very organized trade fair leave little room for spontaneity and improvisation, but if participate in events they attend is an obvious strategy, it may be appropriate to adopt a complementary approach through a third party, matchmaking events or direct marketing to generate interest and more opportunities to meet with buyers.

a. Trade fair

i. Foreign and Japanese's largest exhibition specialized in cosmetics

The visit of foreign trade fairs is one of the basic principles of all stakeholders, which in this direct marketing, seek to circumvent the offer preselected by importers, wholesalers or agents, and get the scoop and exclusivity in Japan of original brands in line with their own concept. Most major European trade fairs are visited regularly by major Japanese buyers. It is important to note that many buyers also tend to explore on the field, outside of these events, through direct visits in stores, perfumeries, drugstores, laboratories, etc. These personalized visits are more favourable to a discovery of new brands and new concepts.

The most popular shows among Japanese buyers are:

- *Beyond beauty*, France (France)
- *Cosmoprof*, Bologna (Italy)
- *Cosmofarma*, Rome (Italy)
- *International Gift show*, New York (USA)
- *Cosmoprof Asia* (Hong-Kong)

Finally, attending trade fairs in Japan is a good way to make themselves known, especially in the specialised press, and meet the market players that do not attend foreign trade fairs. As Japanese companies rely on long term relationship, attending Japanese trade fairs can also help to gain recognition among Japanese buyers, who take these trips as an evidence of effort, seriousness and motivation of the exporter. Coming to Japan is also a unique opportunity to visit

the various outlets, understand and spot market trends, discover the store concepts, and assess the local demand.

Here is a list of Japanese trade fairs related to cosmetics:

- *Beauty World Japan* (<http://www.beautyworldjapan.com>)
- *Diet & Beauty* (<http://www.dietandbeauty.jp>)
- *Hoteres / Aqua & Spa* (<http://www.jma.or.jp/hcj/en/index.html>)
- *Bio Fach Japan* (<http://www.biofach-japan.com/main/Page.html>)
- *Cosme Tokyo* (<http://www.cosmetokyo.jp/en/>)

ii. Avoiding cultural missteps and language issues

As stated above, attending a Japanese fair trade is a great proof of motivation to enter the Japanese market, but some small details can shatter everything. Indeed, most of the foreign companies that attend such fair trade are often alone, without any Japanese translator. It seems that these companies expect everyone to speak English in Japan, and this is one of the main missteps made by foreign companies. Hence, a very obvious advice is to systematically get a Japanese translator to welcome participants and communicate in the best possible way with them. The translator will also provide as much advice as possible regarding the best way to interact with Japanese buyers.

Communication and greetings are of utmost importance in Japan, therefore a very basic advice and yet not applied by all, is to be as welcoming as possible, with the help of translator of course, but also through gesture and global appearance. Arms crossed, unsmiling face, looking at one's watch, stay seated behind a desk, etc. are common behaviors of foreign attendants in fair trade, and it should be avoided for a successful trade fair and to attract buyers.

b. Consulting firms

i. Usual method of operation

In most of South-Asian markets, there is usually no need for a local partner such as an agent or a consulting company to help gaining contact with buyers. Indeed, in Hong-Kong, Singapore, Malaysia, and in some way in South Korea, meeting with buyers is fairly easy (through direct marketing or on a fair trade) and signing a contract could be quick. However, as stated above, the way of approaching buyers is totally different in Japan and has to be done with caution and a good knowledge of the Japanese culture and customs.

A local partner is, therefore, a great option. This partner could be an agent or a consulting firm, and they will basically represent the brand in Japan. Even though such services are often paid on a commission basis in most countries, it is not in Japan. Indeed, searching for the best possible distributor and negotiate agreements and a good relationship with them takes months, and sometimes even years. So, working only on commission is usually not an option for any

serious consulting firm. Instead, it will usually cost from 2,000 EUR to 4,000 EUR, and will consist in assigning someone to day-to-day tasks: translation in Japanese of various documents and brochures, research of potential partners, visits, presentations, negotiations, follow-up, etc.

ii. List of contacts

There is a lot of good consulting companies in Japan, such as PMC (www.pmcjapan.com), SBA Consulting Group (<http://www.sbaltd.com>), Cledasie (www.cledasie.com), etc. It should also be noted that some companies are specialised in a specific domain, a very valuable contact is the OEM laboratory D-S-A (<http://www.d-s-a.co.jp/>) that provides services regarding the ECOCERT certification in Japan.

c. Matchmaking services

Whether it is during a fair trade, organized by a consulting company or any organisation, matchmaking events and matchmaking services are a great way to meet with buyers interested in your products. Except for the very obvious advices such as the presence of a Japanese translator, a very important point to check before attending such an event is the follow-up services that the organizer is providing. Indeed, such services cost usually around 2,000 EUR to 5,000 EUR, and some of them does not include any follow-up or negotiation help after the event itself. In Japan, business is performed on a long-term basis, and that means a contract won't be signed quickly.

Therefore, if no follow-up service is included, it will be hard to communicate and negotiate in a very effective way. It is fairly common for a company to have contact with various buyers and to fail in the last stages because of some communication issues, follow-up done by a professional is the best solution to avoid such problems.

d. Direct marketing

If well conducted, direct marketing can have a significant impact. However, it must meet a number of principles in order to ensure the effectiveness of such an approach. First, email is preferable over phone, unless the exporter has, within its team, someone who speaks fluent Japanese. In fact, the Japanese are generally not fluent in English, thus a first contact by phone can put the interlocutor in an uncomfortable situation. Therefore, a personalized email has to be preferred as sending mailings, too impersonal, is usually ineffective.

When performing a survey by email, the essential is to provide as much information as possible about the brand, its products, patents, awards, distribution networks, etc. Japanese buyers usually appreciate having access to visual information such as company's brochure translated into Japanese, pictures of products, all the necessary information about the ingredients, the specificities of the products, etc. Many cosmetics buyers admit to not take the time to respond to emails they receive from foreign brands if the information they provided were inadequate.

e. Various advices

A website in English is essential and provides much more than a business card. It is an ideal vehicle to highlight the "concept" of a brand and give an idea of the expertise of the maker. It is also useful to provide a maximum of technical information on products and on the company's history.

Also, companies shouldn't adopt an approach that could be considered as aggressive during the market exploration: Japanese buyers do not like companies that insist and consider such behavior as an offense. If a buyer does not answer mail despite several reminders, it is certainly that the products do not match what he wants, or how the company communicate about its products do not suit him (long response times, inaccurate responses, lack of information on the content of products and manufacturing techniques etc.).

When approaching the Japanese market, companies must keep in mind that the accuracy is their best asset. The more a company improves its way of communicating by making it clear, accurate and complete, the more chances its have to get to start negotiations. This applies to sending e-mails for the general communication strategy: the information should very specific about the content of products and manufacturing techniques. Sometimes, Japanese buyers may require a level of precision and detail of information that can surprise, but the answer should always fit their expectations.

If a Japanese buyer expresses interest in a product, sending samples is essential to the progress of business negotiations. The degree of requirement of Japanese companies is such that the products should be tested several times over a period of 3 to 6 months, before the decision is taken to import them, so negotiation could be long (6 months / one year). At every stage, a careful and thorough communication is advised to satisfy the requirements of the Japanese interlocutor. Another mistake made by major companies is to arrive as in a « conquered land » because of the success of the brand in other countries: this behavior has to be avoided as explained in the chapter [III.D.4.a](#).

C. Analysis of typical mistakes made by foreign companies

1. At the time of looking for a partner

One very common mistake that could be heard from companies wishing to enter the Japanese market is about the retail price. It is true that retail prices in Japan are probably the highest and the premium market is also likely to be the largest. However, mass market is taking over premium market and retail prices are going down, so thinking about selling 50% or even 100% higher in Japan than in Europe is a mistake. It used to be the norm, L'Occitane, for example, have a Japanese retail price more than 100% higher than in France since the very beginning, in 1997. But recently, acceptable prices are around 20% higher than in Europe. Of course, it totally

depends on the brand strategy, but Japanese consumers are well-informed and won't accept an unjustifiably high retail price. According to distributors that have been interviewed for this research, one cause of stopping working with a foreign company is often due to a retail price too expensive compared to the market of origin.

Another mistake, also due to a misknowledge of the market is about the distribution channel. Indeed, there is a huge variety of them, as stated in chapter [I.A.3.a](#), and they are really different from the ones in Europe. A good example is the drugstores: prices are generally cheap, with a careless presentation (products are aligned in a confined space or packed in trays), foreign brands are usually absent from the shelves (because their prices are higher than local brands for an equal quality). In Europe it is rather the opposite, so for a brand usually distributed in drugstores in Europe, it might be a bad idea to seek distribution in such drugstores in Japan. We also have the door-to-door sales channel and TV shopping that are popular in Japan but usually old-fashion in most European countries and, therefore, these channels are to be considered as any other channel. Department stores are also usually overestimated by foreign companies and they usually don't realise the huge investment they require. And this is basically the last huge mistake: thinking about entering the Japanese market without any investment. It is, of course, possible to find a distributor in some variety stores, but if the company has a long-term vision for Japan, then investment has to be considered for every step: market assessment, local partner, etc.

It is clear that foreign companies should always perform a careful market study in order to decide their final retail price, and thus relying on a local partner such as agent, association or consulting firm, is a clever way to assess the market with the help of a local professional with a high knowledge of the market.

2. At the time of importation

Importation of cosmetic products in Japan is not an easy task. Of course, most of the time, the distributor will handle it himself so the company does not have to worry about it. However, a strong recommendation is to test the products to ensure their legality on the Japanese territory. As stated in the chapter [I.B.2.a](#), the company can't perform the tests itself but has to get through an importer that own the various licences. According to one of the main importer, on 300 requests per year for products importations, only 100 of them passed the various test. There are multiple reasons for that, but the main one is the presence of a forbidden ingredient (or a too large quantity of a specific ingredient). So even if a product is good to be import everywhere, it does not mean that it will be in Japan too, and this is a common mistake made by companies, that prevent them for being actually import in Japan.

Once again, being cautious and work with a local partner is a strong recommendation to prevent such issues.

3. At the time of distribution

As seen throughout this report, Japan has to be considered with a long-term vision as it requires investment in time and money to get a proper distribution network. Some brands, seeking for any possible distribution network are ready to accept whatever a distributor will offer to them, as soon as they get referenced in a shop. Variety stores like Plaza Style, for example, are always looking for new brands to distribute in their shops, and it might be considered as an “entry door” to Japan by some companies, but it actually might be the exact opposite. Variety stores distribute a lot of different brands and they won’t invest on commercial or in product development for them. Therefore, except if there is a sudden craze for a specific product, the brand won’t gain notoriety or visibility, and will remain in this distribution network. Even worse, it could be hard to change the distribution network as Japanese distributor usually won’t distribute a brand that was previously distributed by another company in Japan to avoid any issue with the company that is why distribution contract in Japan is often exclusive. This is why, before signing a distribution agreement, one must think carefully about the future of the brand in Japan. Department Store or other premium retailers, won’t distribute a brand that was previously in the mass market or a « lower » distribution network. Once again: long-term vision and careful investment.

At the time of negotiation, it is important to remember that manufacturers cannot impose specific terms on business practice to the wholesaler or distributor such as retail prices. Even though a “gentlemen's agreement” is made by both parties, the merchandisers can sell at any discount price to any retailer and could not be prosecuted for it. So the brand strategy regarding the distribution network has to take that into account: while variety stores usually apply a discount on retail prices (up to 30% or even more) and select shop will usually be more reasonable with a 10% discount (or no discount for the premium ones) for example, the only distribution network that do not apply any discount is the Department Store. Thus, being distributed in department stores means a control on retail prices. This is also an information that should be wisely considered at the time of seeking a distribution network.

4. Specific study cases of failure and success

a. Cultural issues & marketing fails

In the Japanese retail market, there is a lot of well-known examples of marketing failures due to a lack of, amongst other, local culture knowledge. Carrefour, Boots, Barbie Dolls, Tesco, etc., are famous name regarding failure at different levels and for various reasons: size of the stores, in-store services, packaging, shop layout, inappropriate commercial, etc. The Japanese cosmetic industry also brings its own failures due to cultural missteps.

P&G (Procter & Gamble) for example, somehow managed to ignore basic cultural practices. To prove its detergents' superiority over other brands, the company resorted to its standard side-by-side product demonstrations of whiter shirts and brighter socks. That was a bad move. These ads did not appeal to the Japanese, who prefer harmony and polite business dealings. The company had another small mishap with its commercial for "Cheer All Temperature" detergent. The Japanese don't wash clothes at different temperatures, instead they do the laundry in tap water or leftover bath water. In the same category, some years ago, P&G released a television commercial, pitching their soap (Camay) as making women more attractive to men, the ad showed a man walking into the bathroom while his wife bathed. Women took great offense: in Japan it is the height of bad manners for a husband to impose on his wife's privacy in the bathtub.

A second well-known example of unsuccessful entry in the Japanese cosmetic market is Sephora. The deregulation of Japan's Large-Scale Retail Store Law in the early 1990's resulted in a significant influx of foreign direct investment from multinational retail enterprises into the country, and Sephora, the luxury cosmetics retailer, is one such multinational. Due to its proven success in Europe Sephora's core competency, the model of 'assisted self-service' was standardized across its internationalization process, even in Japan. In 1999, Sephora entered the Japanese market with 7 superstores well-located areas (Shibuya, Ginza, etc.) and left the country in 2002. It is the lack of "response" or adaptability arising from lack of understanding of key elements of the market that drove Sephora out of the Japanese market. They failed to understand the target consumer and made various ineffective market targeting. Indeed, using their standardized global signature 'assisted self-service', Sephora deprived the Japanese consumer of the prestige and privilege that they were accustomed to. Another bad move Sephora made was the emphasis placed on perfumes as they generated the principal portion of its global profits, in spite of cosmetics accounting for the largest beauty products market share in Japan, and the perfume being a niche. They made many other marketing mistakes (the color black and white is usually associated with death in Japan), misinterpretation of the market's competitive structure, misknowledge of cultural aspects of the Japanese distribution system, etc.

Overlooking the significance of market research resulted in its ignorance of critical socio-cultural and economic factors of the Japanese market, eventually led P&G, Sephora, and others to their demise in Japan. These examples show that despite any worldwide success, Japanese market entry requires a lot of adjustment that must be performed with a strong knowledge of culture and customs, and that overconfidence in success and market expansion always led to the same result: withdrawal from the market.

b. Seasonality

One of the most important aspects of Japanese culture that foreign companies have to clearly understand and adapt to is the great seasonality that impact the consumption throughout the year. Therefore, local players usually launch a new product every 6 / 8 months to maintain the consumer loyalty and continuously arouse their curiosity. Seasonality is one of the keys to success in Japan on the long-term, and successful foreign brands usually launch products or declension of products only on the Japanese market and nowhere else. Kit-kat in Japan is one of these marketing geni that perfectly understood every aspect of the Japanese culture and found various ways to adapt their products and marketing to it. In Japan, Nestlé has introduced over 200 different flavours since 2000, including ginger ale, soy sauce, creme brulee, green tea, and banana. The flavours are designed to appeal to younger buyers, and are often bought as good-luck gifts as the brand name echoes the Japanese phrase "Kitto Katsu", roughly translating as "surely win". Most of them can only be found in specific areas or city throughout Japan, appealing the hobby of Japanese consumers for collecting items (and especially Stamp Rally).



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Conclusion

Sustainability in the Japanese market depends upon the seamless interaction and integration with its culture, due to the significance of different socio-religious aspects integrated into business operations. Furthermore, Japan is indeed a mature market which has experienced deep modifications at every level, such as social mutations, prices, market structure to name a few. Therefore, before attempting to enter the market, companies must fully understand and take into account these changes, as they may be a source of opportunities as well as challenges. Conducting a comprehensive market research and working closely with a local partner provides foreign entrants the necessary leverage to succeed by identifying these critical success factors. In the context of internationalization, which involves substantial costs, market knowledge provides the main competitive advantage and is probably the key that bridges the gap between failure and success, while optimizing economies of scale and scope. Thus, companies should try

as much as possible to benefit from help and support (export credit and services), from both Japanese and EU organisations, to avoid common mistakes and experimental market entry.

With proper support and market knowledge, any company able to combine identity, quality and innovation could be successful on the market. Opportunities lie in every sector: IT and software companies (connected beauty devices, etc.), ingredients suppliers (EGF, Astaxanthin, etc.), brands (men, seniors, hair-care, etc.), packaging factories (nanotech tracker), retailers (bespoke products, etc.), laboratories (DNA kit, etc.), and distributors (flash sales, beauty boxes, EC, etc.). This report highlighted only a few of the countless opportunities, only to show that opportunities are everywhere and could be adapted from other industries, old traditions, new trends and innovation, to provide tools and ideas to benefit from trends and anticipate them.

Global recommendations:

The European Commission has a number of different entities dedicated to help companies, providing advice and also according export credit. However, due to information gaps and asymmetries, smaller enterprises are unaware of the export credit products and services available. A better promotion of these services seems mandatory to help the internationalization process of SMEs as well as providing them with a comprehensive list of local companies (agent, consulting firms, etc.) which are indispensable to help them penetrate the market and avoid mistakes and obstacles which arise from the complexity of the market and the specific regulatory framework.

As stated by most cosmetic experts, a better harmonisation of the EU and Japanese legislation regarding the importation process of cosmetics and especially regarding the quasi-drugs system is vital as it represents a major barrier for many SMEs.

Appendix

A. Table of reference

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B. List of abbreviations

CIF: Cost, Insurance, Freight

CAA: Consumer Affairs Agency

CTFA: Cosmetic, Toiletry, and Fragrance Association

EPA: Economic Partnership Agreement

GQP: Good Quality Practice

GVP: Good Vigilance Practice

INCI: International Nomenclature of Cosmetic Ingredients

ISO: International Organization for Standardization

JCIA: Japan Cosmetic Industry Association

MHLW: Ministry of Health, Labour and Welfare

PA: Protection Grade of UVA

PAL: Pharmaceutical Affairs Law

SPF: Sun Protection Factor

WTO: World Trade Organization

C. List of English-Japanese translations

Cosmetic: 化粧品

Cosmetics Import Notification for Manufacture and Sales: 製造販売用化粧品輸入届書

Cosmetic manufacturer's license: 化粧品製造許可

Cosmetics manufacturing and sales license: 化粧品製造販売許可

Manufacture and Sales of Cosmetics Notification: 化粧品製造販売届出

Quasi-drugs: 医薬部外品

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E. Standards for Cosmetics

Below is the link to the “Standards for cosmetics (Ministry of Health and Welfare Notification No.331 of 2000)” containing positive lists and negative lists of ingredients for cosmetics. If an ingredient does not violate the provisions of the “Standard for Cosmetics”, it is permitted to incorporate it in cosmetics after checking and choosing safety under corporate responsibility.

Here is the list of information included in the “Standards for cosmetics, Notification No. 331/2000”, please use as reference if in search for the legality of a specific ingredient in Japan. It

can be downloaded here in English:

<http://www.mhlw.go.jp/file/06-Seisakujouhou-11120000-Iyakushokuhinkyoku/0000032704.pdf>

	Ingredients Class	Ingredients
Prohibition of inclusion	Other than preservatives, UV absorbers and tar colors	Refer to the appendix 1 of page 3
Limitation on inclusion	Other than preservatives, UV absorbers and tar colors	Refer to the appendix 2 of page 4
	Preservatives	Refer to the appendix 3 of page 5
	UV absorbers	Refer to the appendix 4 of page 7
	Other than tar colors	Shall apply the provisions of Article 3 of the ministerial ordinance to specify the tar colors that can be used for medical supplies, which is No. 30 of the Ordinance of the Ministry of Health and Welfare 1966.