

2016 Korea Cosmetics Industry Analysis Report

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Contents

2015 Cosmetics Industry General Status.....	5
Korean Cosmetics Production Performance.....	5
Current State of Cosmetics Manufacturers.....	6
Production Performance by Manufacturing and Sales Companies.....	7
Sales Performance by Product.....	9
Production Performance by Types of Cosmetics.....	11
Cosmetics Export Performance.....	15
Cosmetics Import Performance.....	20
Cosmetics ODM Market.....	22
Korean ODM Cosmetics Market during the Growth Period.....	22
ODM Market of 1.2 Trillion KRW, the Top Seven Companies Occupy 80% of the Market.....	22
Formation of High Barriers to Entry.....	23
Securing Competitiveness in the Chinese Cosmetics Market.....	24
A big gap between the top two companies (Kolmar Korea, Cosmax) and other companies exists.....	24
The reason why there is a gap between the top two companies and other companies.....	25
Division of Work System of Brands and ODM Manufacturer.....	27
Growing trend of new companies entering cosmetics market.....	28
Competitiveness of Korean ODM Suppliers in China's Cosmetics Market.....	29
Korean Cosmetics Raw Materials Market.....	30
Size of Korean Cosmetics Raw Materials Market.....	30
Paradigm to Drive the Cosmetics Raw Materials Industry.....	32
Natural Materials Growth Potential.....	34
Regulations of Cosmetics Classification in Korea.....	35
The Growth of the Bio-cosmetics.....	39
R & D trends of Korean Cosmetics Ingredients.....	40

Cosmetics Subsidiary Materials Market.....	43
Current State of Korean Cosmetics Subsidiary Materials Companies.....	49
Trends of Policy in Korean Cosmetics Industry	50
Korean Cosmetics Market Distribution Channels	52

Korean cosmetics industry is growing very rapidly in Asian markets, especially in Greater China market by riding the wind of Korean Wave going over the domestic market. Global marketing agency JWT selected "Korean cosmetics" as a trend that the world beauty market watches in its "Report of 100 notable trends in 2015 ". JWT explained that the axis of influence in the beauty market is changing and the influence of Korea has expanded in the beauty market with the increasing global demand for differentiated Korean cosmetics products. It shows the general status of Korean cosmetics industry which is expanding in the cosmetics industry featuring a very short cycle of the product, and presents small quantity and multi-products because it is sensitive to market changes and changes quickly in accordance with the taste and fashion of the people, and analyzed Korean cosmetics industry by subdividing it into ODM industry, raw materials industry, and subsidiary industry.

This report analyzed the general status of Korean cosmetics industry based on the statistics of Korean cosmetics industry and interviews with the related personnel, and it is a comprehensive report through the ODM manufacturers which can be called the rear industry, raw materials industry, subsidiary materials industry and the trend analysis of the government policies for cosmetics industry to promote Korean cosmetics industry.

Leading manufacturers of Korean cosmetics industry include Amore Pacific / LG Household & Health / Able C & C / Nature Republic, and the leading ODM manufacturers include Korea Kolmar / Cosmax / Cosmecca Korea/ COSON. Bioland Ltd., DaebongLS Co., Ltd., ACT are the representative raw materials companies, and Yonwoo and Taesung Ltd. are leading subsidiary manufacturers.

2015 Cosmetics Industry General Status

Korean Cosmetics Production Performance

Korean cosmetics production performance in 2015 is 10.7328 trillion KRW, exceeding 10 trillion KRW for the first time. It is higher than that of last year, which was 8.9704 trillion KRW by 19.6%, and it has been maintained a rapid growth with a growth rate of 13.9% if we look at the average

2014.*****

year again. According to the result of analysis, such high growth rate was due to the sustained export growth, diversification of export destination, growth of functional cosmetics, growth of functional cosmetics, and the emergence of various idea products. In particular, export increased sharply while the trade surplus was *****

2014.*****

the previous year. The production amount of functional cosmetics also showed a skyrocketing rise of 29.6% compared to the previous year.

<Korean Cosmetic production performance status in 2015>

Classification	2010	2011	2012	2013	2014	2015
The number of companies*						
List of products (items)						
List of materials (items)						
Amount of production (100 million KRW)						
(Rate of growth %)						

Source: KFDA, MU Research Center

Production Performance by Manufacturing and Sales Companies

Looking at the production performance by company in 2015, 'Amore Pacific' of 3.7485 trillion KRW (34.93%);

2014.

and 'L & P cosmetics' of 125.2 billion KRW (1.2%) formed top 10 companies in the above order.

The production performance of these ten companies recorded 7.8208 trillion KRW, reaching 72.9% of the total share.

The production performance of the two major companies including Amore Pacific and LG Household & Health Care, was 6.6351 trillion KRW which accounts for 61.8% of the overall production performance in Korea.

<Production performance by top 20 manufacturing and sales companies>

(Unit: 100 million KRW)

Ranking	Manufacturing and sales companies	2014		2015	
		Amount of production	Shares	Amount of production	Shares
Total		89,704	100%	107,328	100%
Subtotal(top 20 companies)		72,878	81.24%	86,254	80.37%
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					

Source: KFDA, MU Research Center

Sales Performance by Product

The product with the highest production performance was Sulwhasoo essential balancing emulsion from Amore Pacific. The production performance of it recorded 117.9 billion KRW. The production performance of Sulwhasoo essential balancing water also exceeded 100 billion KRW, recording 114 billion KRW.

***** 12 items from Amore Pacific

and 7 items from LG Household & Health Care were listed in top 20 items.

In particular, Clinie N.M.F. Aquaringer Ample mask from L&P cosmetics, a small and medium-sized company specialized in facial mask pack, was ranked at the 10th in the production performance showing the strength of the company between two giant companies, Amore Pacific and LG Household & Health Care.

<Production performance of top 20 items>

(Unit: 100 million KRW)

Ranking	Classification	Name of companies	2014		2015	
			Amount of production	Shares	Amount of production	Shares
Total			89,704	100%	107,328	100%
Sub-total(Top 20)			7,302	8.14%	11,624	10.83%
1						1.10%
2						1.06%
3						0.74%
4						0.72%
5						0.69%
6						0.67%
7						0.55%
8						0.51%
9						0.50%
10						0.48%
11						0.45%
12						0.45%
13						0.41%
14						0.39%
15						0.37%
16						0.37%
17						0.35%
18						0.35%
19						0.34%
20						0.34%

Source: KFDA, MU Research Center

<Production performance of top 20 small and medium-sized enterprises>

(Unit: 100 million KRW)

Ranking	Manufacturing dealers	Name of product	Production amount
1		Clinie N.M.F Aquaringer ampoule mask (renewal)	
2		Guerisson 9 Complex	
3		Prestige Masque d'escargot	
4		Leaders Insolution deep Aqua Moisturizing Mask	
5		Topclass Royal Hydrating Cream	
6	SD Biotech Corp.	SNP Bird's Nest Aqua Ampoule Mask	142
7	Aphrozone Ltd.	Ruby-Cell 4U Ampoule	142
8	It's Skin	Prestige Crème d'escargot	136
9			
10			
11			
12			
13			
14			
15			
16	Coreana Cosmetic .	SHO EGFactor Timeless Eye Cream	103
17			
18			
19	Aekyung Industrial	Kerasys Elegance & Sensual Perfume Shampoo	88
20	Carverkorea Ltd.	AAHC private real eye cream for face	86

Source: KFDA, MU Research Center

Production Performance by Types of Cosmetics

The number of production items in 2015 was 105,318, which is more than the previous year, 2014, by 3,956(3.9%). Looking at the number of production items for the last 5 years, it increased from

 2014. *****

functional cosmetics.

Looking at the cosmetics production by types, basic makeup products were produced most with 6.2016 trillion KRW, which accounts for 57.8% of the total amount of production. Then products for color makeup recorded the second with 1.7225 trillion KRW, which is accounted for 16.1%.

< Production performance by type of cosmetics >

(Unit: 100 million KRW)

Classification	Type	2014		2015	
		Amount of production	Shares	Amount of production	Shares
	Total	89,704	100.00%	107,328	100%
1					
2					
3					
4					
5					
6					
9					
7					
8	Air Fresheners	273	0.30%	286	0.27%
10	Products for hair Dyeing	205	0.23%	165	0.15%
11	Bath Products	46	0.05%	48	0.04%
12	Deodorant products	32	0.04%	35	0.03%

Source: KFDA, MU Research Center

In general, the production of all types has increased, while the portion of the products for basic makeup and color makeup increased, but the portion of the products for hair and infants/babies decreased.

The portion of the products for basic makeup and color makeup increased by 1.1 % from 72.7%

2014.*****

Shaving products (19.5%), deodorant products (9.4%), hair products (6.9%), air fresheners (4.8%), bath products (4.3%), and the products for infants/babies (4.0%) were listed in the order of the growth rate. On the other hand, the growth rate of the hair color products was -19.5% compared to the previous year, being recorded as the only product type decreased.

Functional Cosmetics of 4 Trillion KRW Share 36% of the Total Production

2015 was marked as a year of remarkable growth rate in functional cosmetics. Production performance of functional cosmetics in 2015 was 3.8559 trillion KRW, which increased from the

that the main factors for the continuous growth are to enhance the confidence in the quality of cosmetics by examining them directly by themselves and to create an environment in which cosmetics companies can develop functional cosmetics easily through the official notification of the functional ingredients. In fact, the number of functional cosmetic products notified in 2013 was 38, it increased to 47 in 2014, and 55 in 2015.

According to the Amendment Cosmetics Act in May in 2016, the range of functional cosmetics was expanded from the products for whitening, anti-wrinkle, UV protection to changing or removing the color of hair, to the products to help prevent and improve dry skin, cracking, and keratinization, etc., so that the market is expected to be further expanded.

<Functional cosmetics production performance>

(Unit: 100 million KRW)

Classification	2010	2011	2012	2013	2014	2015	2015(shares)
Total	15,189	16,418	21,483				
Multi-functional	4,180	5,935	7,804				
Wrinkle improvement	3,423	3,231	6,665				
UV protection	4,721	4,138	4,027				
Whitening	2,865	3,113	2,987				

Source: KFDA, MU Research Center

Among the functional cosmetics, the production performance of the multi-functional cosmetics with more than two functions was the highest with 2.980 trillion KRW. The share of it is pretty high at 19.6%.

All types of functional cosmetics recorded high growth rates. Especially the growth rate of the whitening cosmetics and sunscreen products, which have shown a declining growth rate, was remarkable.

Multi-functional cosmetics have continued grow rapidly every year. It grew 27.6% in 2015. It has shown high growth potential starting with the growth of 31.5% in 2010, 42% in 2011, 31.5% in 2012, 57.1% in 2013, and 34.1% in 2014, and it exceeded 2 trillion KRW in 2015 showing its reserved strength.

Cosmetics Export Performance

Cosmetics export has grown sharply for the recent 2-3 years riding the flow of the Korean Wave. The cosmetics export in 2015 was 2.9280 trillion KRW, reaching nearly 3 trillion KRW, which is growing 43% year-on-year figures.

Trade surplus was 1.6973 trillion KRW, being over 1 trillion KRW. Cosmetics trade surplus has grown sharply to be close to 100% year-on-year figures.

<Cosmetics export performance>

(Unit: 10,000 US dollars)

Classification	2010	2011	2012	2013	2014	2015
Amount	59,693	80,450				

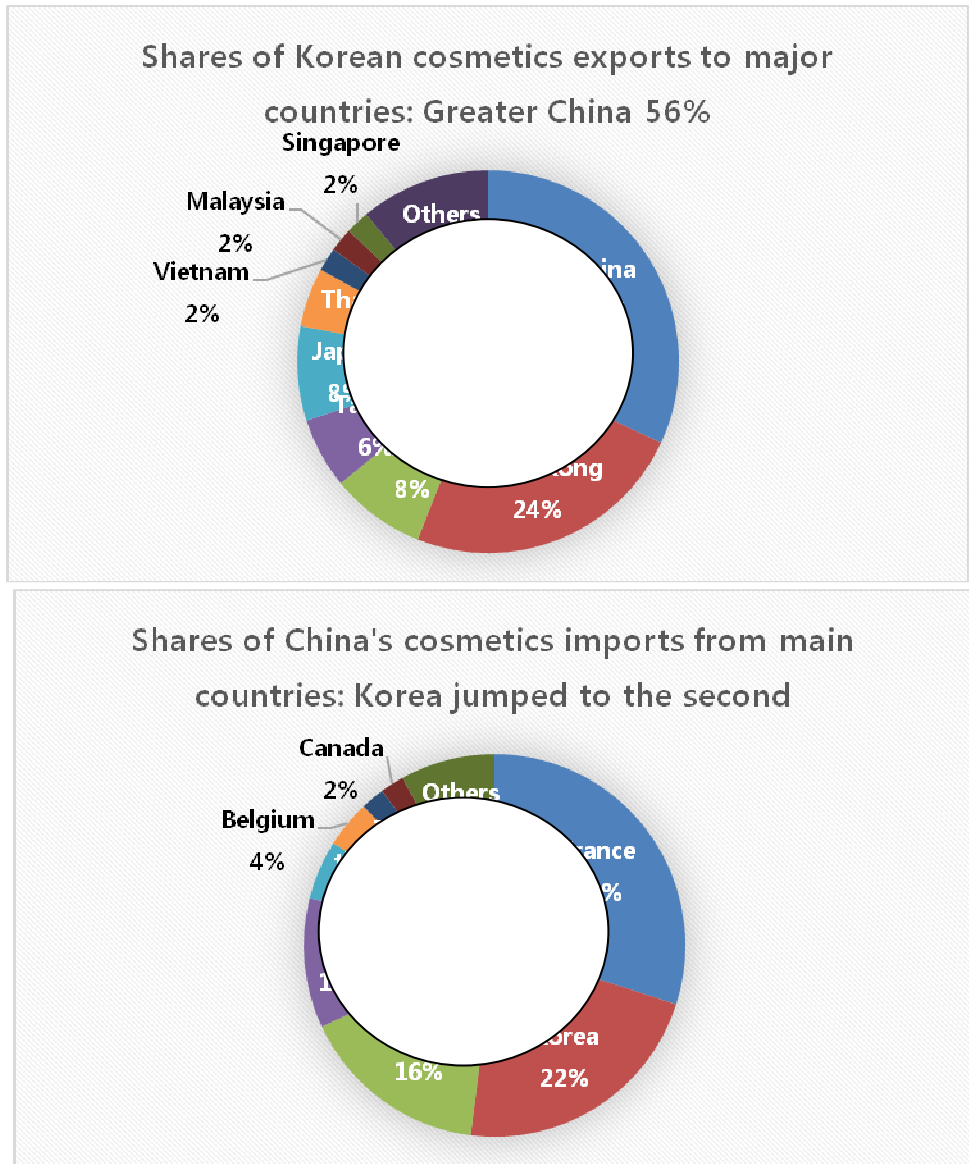
Source: KFDA, MU Research Center

Korean cosmetics is mostly exported to China (1.06237 billion dollars, 1.2021 trillion KRW), Hong Kong (0.64182 billion dollars, 726.2 billion KRW), the US (0.18852 billion dollars, 213.3 billion KRW), and Japan (0.12238 billion dollars, 138.5 billion KRW) etc.

Cosmetics export to China has increased up to 99%, 41% (Hong Kong) and 51% (US), but export

of the cosmetics export is the result of the significantly large portion of exports to China and a good business in Hong Kong and the United States markets. Based on the amount of imports in Chinese market, the share of Korean cosmetics jumped to the second from the 4th in 2014.

<Shares of major exporters of Korean cosmetics, Shares of China's cosmetics imports from major countries>

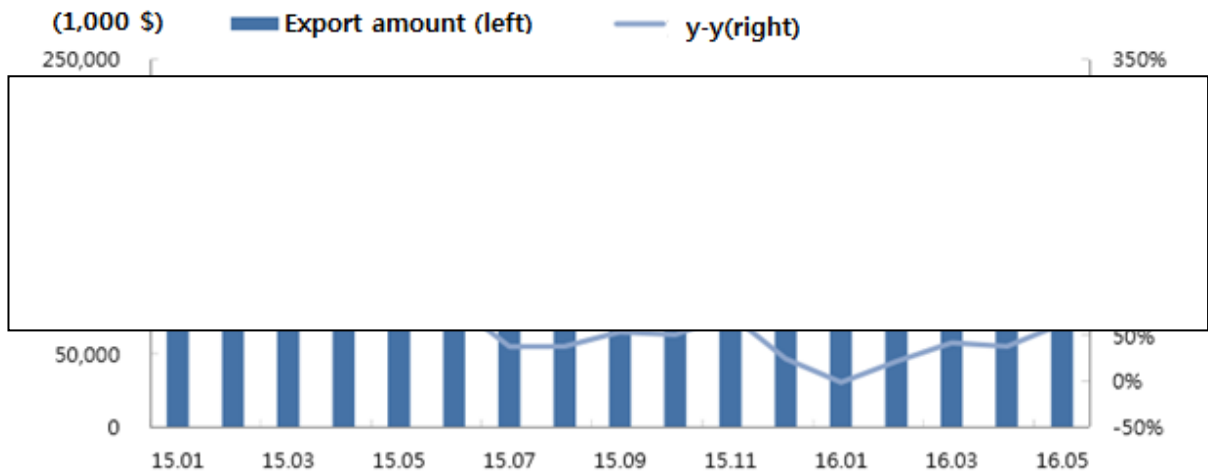


Source: MU Research Center

Cosmetics exports in 2015 were also robust with the high growth rate of over 40%. Cosmetics exports in 2015 were 2.5878 billion dollars (2.928 trillion KRW), which increased by 43.8 % year-on-year.

There are two reasons for the sharp growth in both cosmetic production and exports.

<Sales of Korean cosmetics to China + Hong Kong and y-y growth rate>



Source: Korea customs service, MU Research Center

Korean Cosmetics Raw Materials Market

Size of Korean Cosmetics Raw Materials Market

Looking at the Korea cosmetics history, prior to the 1950's, cosmetics were made at the level of cottage industries, cosmetics research started in 1960's, and the research has been conducted mainly on basic manufacturing methods and quality control ensuring product reliability through it. In the 1970's, as the research to improve the sense of use has been progressed, a full-fledged application of various chemical raw materials began, raw materials and new formulation using

as a functional cosmetics certification system was established in early 2000, functional materials

for whitening, anti-wrinkle, and sunblock were developed in earnest, and advanced materials, such as stem cells, with research on skin aging are used to make cosmetics.

<Cosmetics ingredients market>

(Unit: 100 million KRW)

Classification				2011	2010
Cosmetics market				65,898	63,084
Cosmetics ingredients market				5,272	5,047

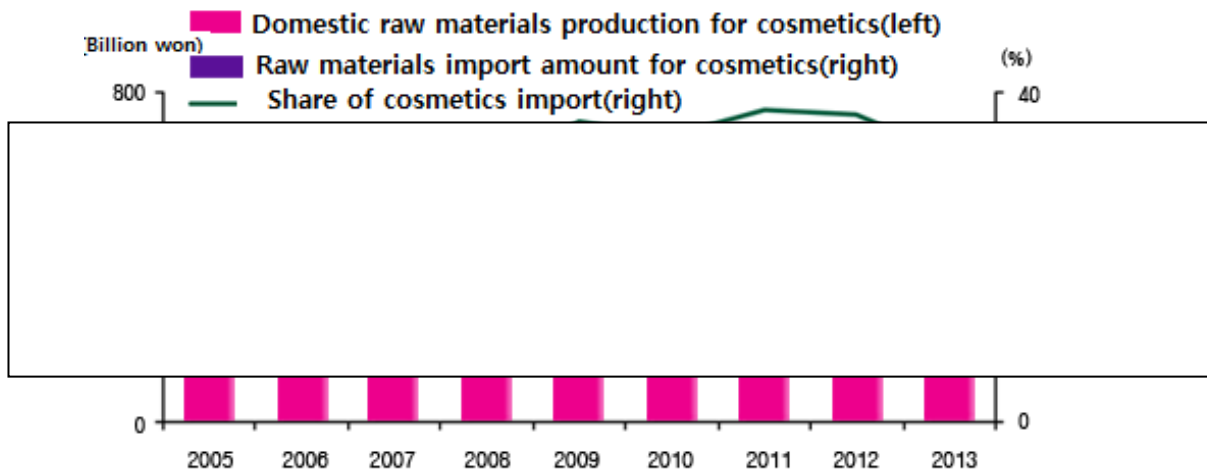
Source: Korea Health Industry Development Institute, MU Research Center

Raw materials industry for cosmetics in Korea began relatively recently, unlike Korean cosmetics industry. Prior to the mid 1990's, almost all cosmetics raw materials were imported from abroad, and a lot of cosmetics raw materials companies have been established since 2000's as the cosmetics industry grew sharply.

After the cosmetics raw materials market in Korea exceeded 400 billion KRW in 2009 it has grown together with cosmetics market to be 632 billion KRW in 2013. Due to the nature of the Korean cosmetics industry, the cosmetic raw materials market was marginal compared to the cosmetics

the same period due to the diversified distribution channels and the emergence of low priced cosmetics, and the leading cosmetic ingredients companies, Bioland, KCI, and Daebongls, showed high growth rate of 23.5%, 13.1%, 10.1% respectively. Especially, ACT drew a remarkable growth curve of 35.6%.

< Progress of cosmetics raw materials market size and its prospect >



Source: KFDA, Korea Cosmetic Association, MU Research Center

Paradigm to Drive the Cosmetics Raw Materials Industry

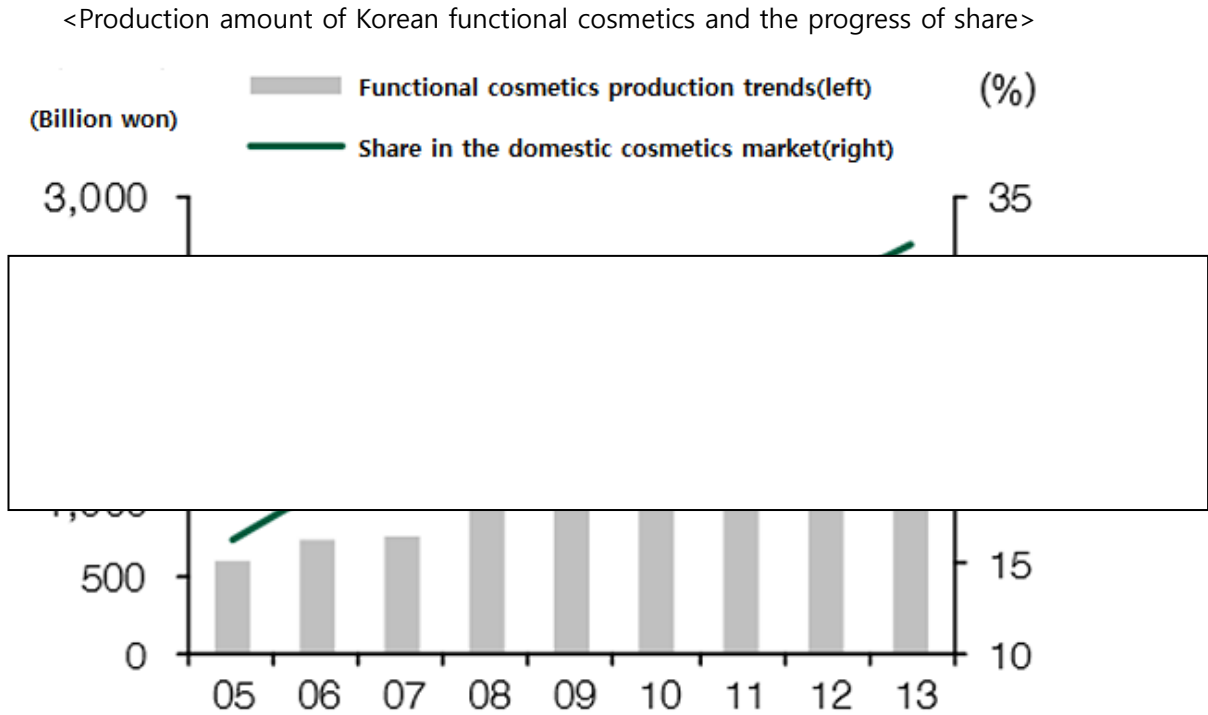
Cosmetics market is in the boom itself as the consumption of Korean cosmetics by Chinese consumers was recently expanded, and the market for mid-priced cosmetics was grown sharply.

The use of high-value raw materials is increasing due to the expansion of the functional cosmetics and natural cosmetics market, with the Nagoya Protocol coming into effect, Korean cosmetics ingredient companies with the R & D capability are expected to draw attention as it is urgent to secure Korean biomass raw materials.

to have expanded into various industrial areas, such as raw materials for medicines, industrial materials based on the strength of natural extracts and functional ingredients.

detailed measures including the level of regulation, are also under discussion, selection of external agencies to be responsible, the certification mark, and a minimum contents of the natural

materials will be announced at this time.



Source: KFDA, MU Research Center

Functional cosmetics are the term used only in Japan and Korea, and defined as cosmeceutical category in the United States and European markets.

Functional cosmetics are the products having an intermediate character of cosmetics and pharmaceuticals, and functional cosmetics focus on both functional efficacy and safety compared to the conventional cosmetics that prioritize safety. Functional cosmetics market in Korea has

cosmetic raw material market in Korea is to be 8% of the total cosmetics market, and has grown with an average annual growth of 19.1% from 2009 to 2014, jumping from 99.2 billion KRW in

2009 to 2.38 trillion KRW in 2014. In this process functional cosmetics ingredients are going to continue to

Targeting Health Functional Food Market of Cosmetics Companies

Functional food market is growing globally as we enter the aging society and the level of consciousness about health is getting higher. Health functional food has a property that can easily be consumed with stability as the generalized functional foods just like general foods. There is also a strength that health functional food exhibits the same effect with a drug and commercialization is easy without undergoing the most demanding clinical procedures against drugs, and can be sold without a doctor's prescription by a variety of channels.

seen.

Companies establishing a specialized ODM system that can provide a total service starting from product planning to finished products for client companies in cosmetics, pharmaceuticals, and health functional foods are expected to have greater synergy effects in development of differentiated new materials, efficacy verification, and securing safety through technology convergence of cosmetics, pharmaceuticals, and health functional foods. Kolmar Korea, BNH, Cosmax-NutriBiotech are included in it.

< Comparison of cosmetics and health food market >

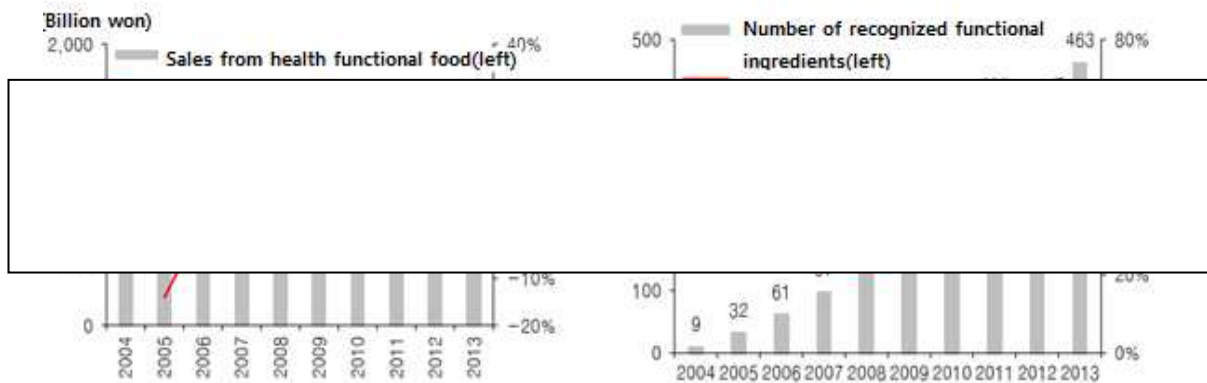
commercialization	Cosmetics	Health functional food
Exports		
Imports		
Korean growth rate		

Source: National Statistical Office, MU Research Center

All companies in the value chain are developing functional ingredients to raise the core competencies because it is directly related to the popular anti-aging trend recently. As of 2013, cumulative number of recognized standards to the functional ingredients is 463 cases and the recognized rate through Korean raw materials reaches 60%. Looking at the functional ingredients, skin health, immune function, improvement of the sensitive skin are the major ones.

<Growth rate of health functional food in Korea>

<Cumulative number of recognized functional ingredients in health functional foods >



Source: Nutrition Business Journal Report 2014, MU Research Center, KFDA

Source: MU Research Center, KFDA