

# **Our Vision for Kao Group's Cosmetics Business**

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President and CEO, Kanebo Cosmetics Inc.**

**KaO Group**

Enriching lives, in harmony with nature.

**SOFINA *Kanebo***

Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

# Concepts of Cosmetics Business Reforms

- In a changing world,  
being keen on the essentials,  
we shall brighten up our brands.
- Tradition and Innovation  
While maintaining our good traditions,  
we dare to change what is becoming out of date.

**I . In a Changing World**

**II . Being Keen on Essentials**

**III . Brightening Up Our Brands**

**IV . Our Vision for the Cosmetics Business**



# **I . In a Changing World**

**- Three Major Changes in the Cosmetics Market -**

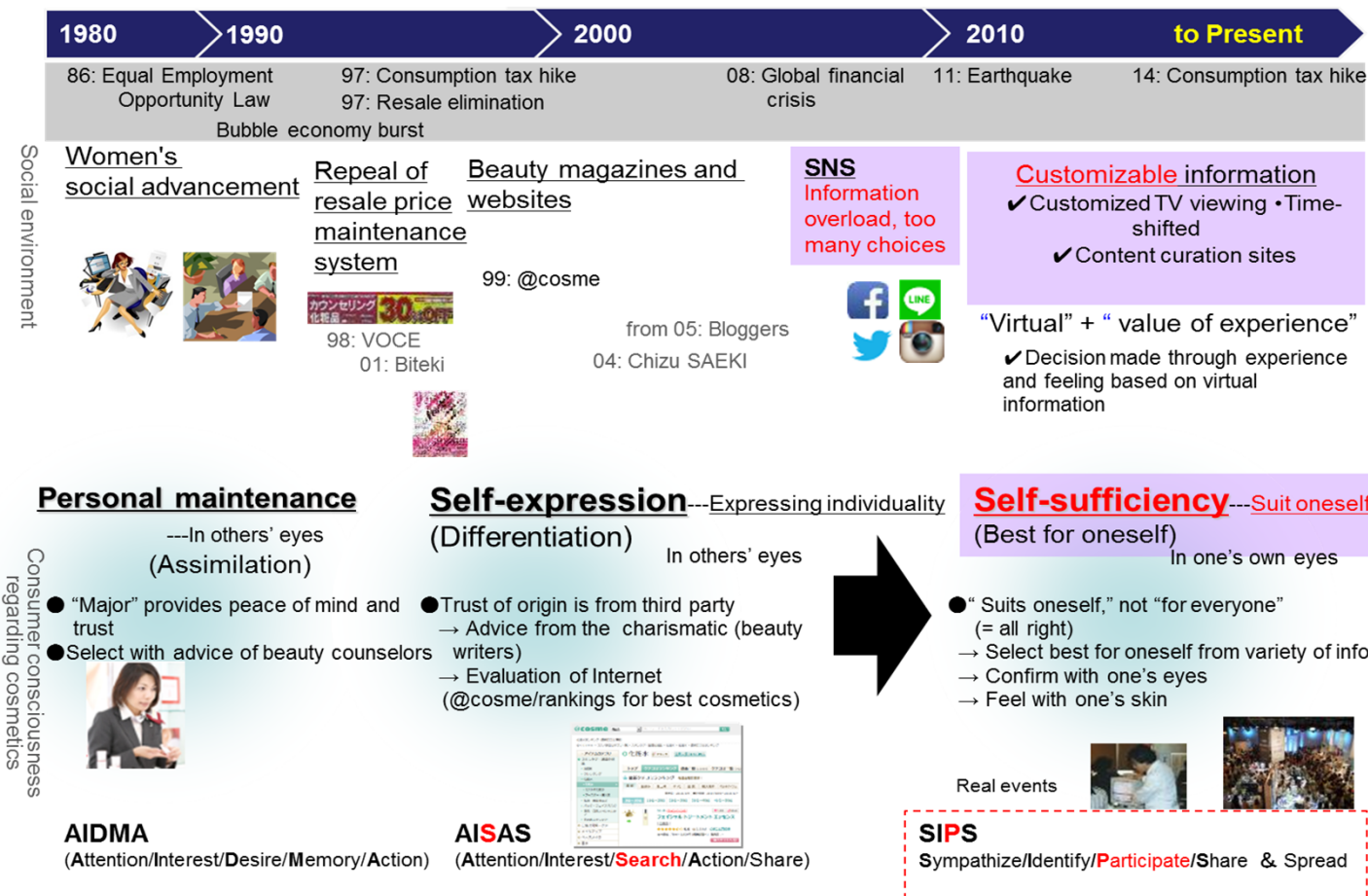
**1 . Change in consumer behavior**

**2 . Change in competition structure**

**3 . Change in position of Japanese market in Asia**

# Change in Consumer Consciousness and Purchasing Behavior for Cosmetics in Japan

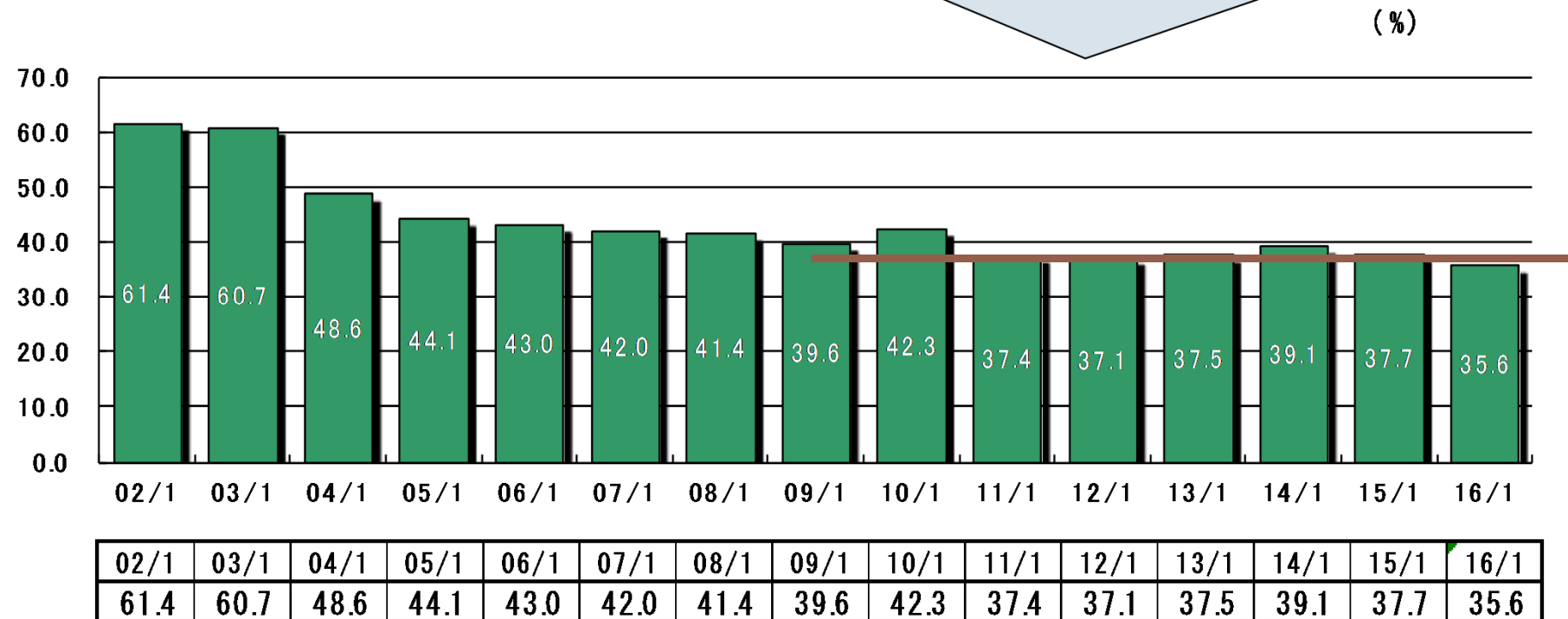
- Disparities between the information that companies and consumers have are shrinking.
  - Consumers' desire for more reliable information that best suits them is becoming apparent.
- ⇒Advanced counseling and real experience are now required.



# Back to Counseling

“I want to purchase skincare items at stores where there are sales staff such as beauty counselors.”

(Total answers excluding “Yes” for the question “Do you want to freely purchase skincare items at stores where there are no sales staff such as beauty counselors?”)  
Source: Survey conducted by Kao in Tokyo N=650 (Females aged 15-69)



# Market Trends by Channel and Area

- Sales recovery in beauty specialty stores nationwide
- Downturn in department store sales in small cities

## Market Growth by Area in Japan and Distribution Channel 2011-2015 (CAGR)

Source: INTAGE SLI based on sales amount per 100 people

Area	Drugstores	GMS/SM	Department stores	Beauty specialty stores
<b>Hokkaido</b>	102%	96%	101%	107%
<b>Tohoku</b>	103%	96%	104%	99%
<b>Kan-Etsu</b>	102%	100%	<u>97%</u>	102%
<b>Shutoken</b> (Capital Region)	99%	101%	103%	105%
<b>Chubu</b>	102%	101%	105%	100%
<b>Kinki</b>	100%	97%	101%	103%
Chugoku, Shikoku	100%	96%	<u>95%</u>	104%
<b>Kyushu</b>	97%	97%	<u>96%</u>	104%
<b>Total</b>	<b>100.4%</b>	<b>98.7%</b>	<b>101.4%</b>	<b>102.8%</b>

# Changes in Competition Structure

- In the past, competition was among domestic cosmetics companies, that is, it was homogeneous competition.
- Now, it is a global martial arts competition among various companies.

**Competition among domestic cosmetics companies**  
**Competition in each distribution channel**

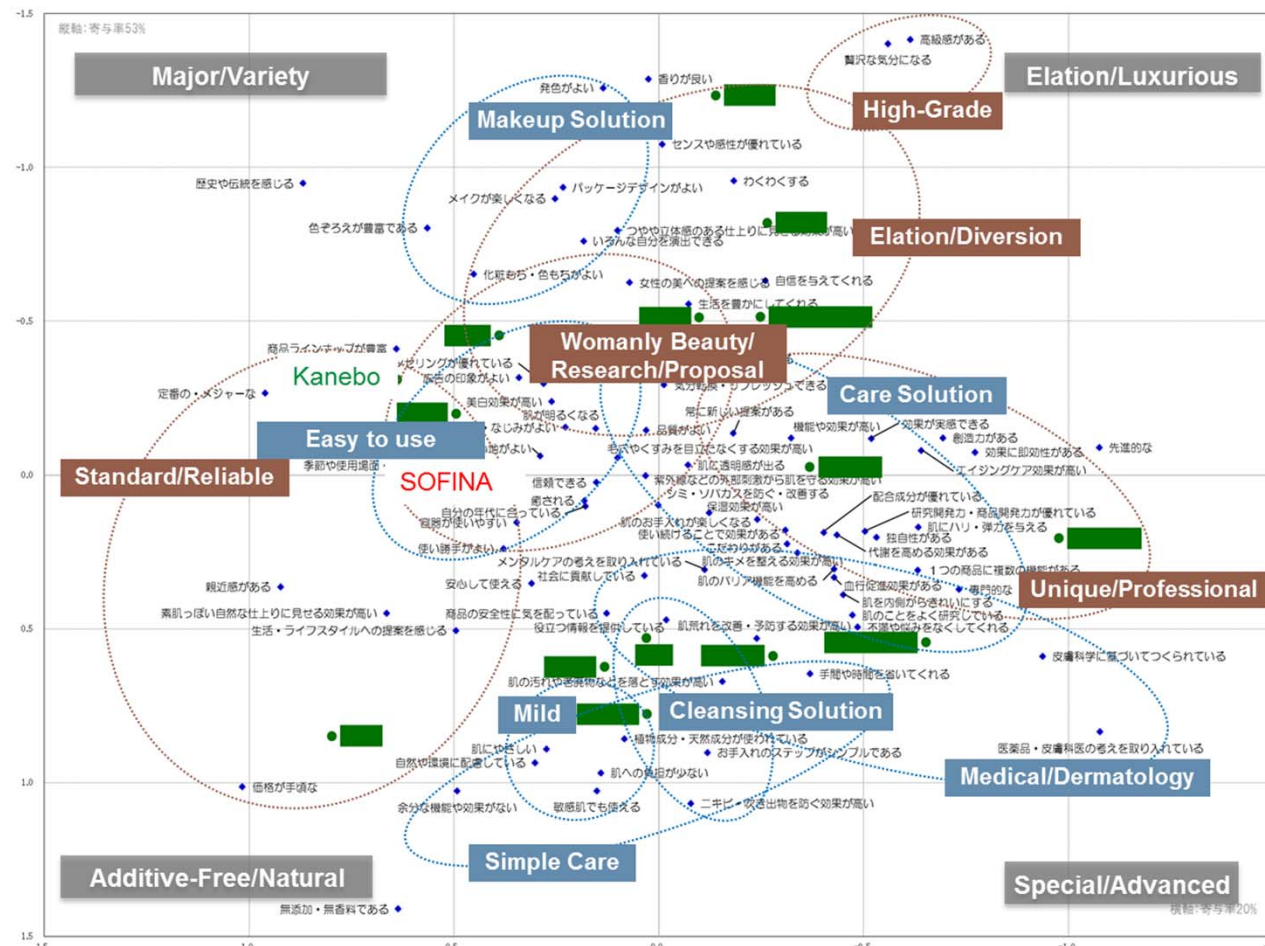


**Competition with global peers and new entrants**  
**from different industries**  
**Competition beyond distribution channels**

# Kanebo/SOFINA Dilution of Brand Identities

## Position of Brand Images in 2015 (Correspondence Analysis)

Source: Survey conducted by Kao in April 2015, N=2,753



# The Three Centers of the World Cosmetics Market

- Markets Have Grown with Strong Linkage to Urban Cultures -

## Paris FRANCE

- The home of the cosmetics industry
- Brands for society women
- The city of perfume
- Culture of milk/emulsion

## New York, Hollywood USA

- Cosmetics industry developed with the film industry
- Makeup artist brands
- NYC, the leading city for fashion

## Tokyo, Kyoto, Osaka JAPAN

- Edo and Kamigata cultural traditions
- Culture of water
- Culture of powder
- Culture of face washing

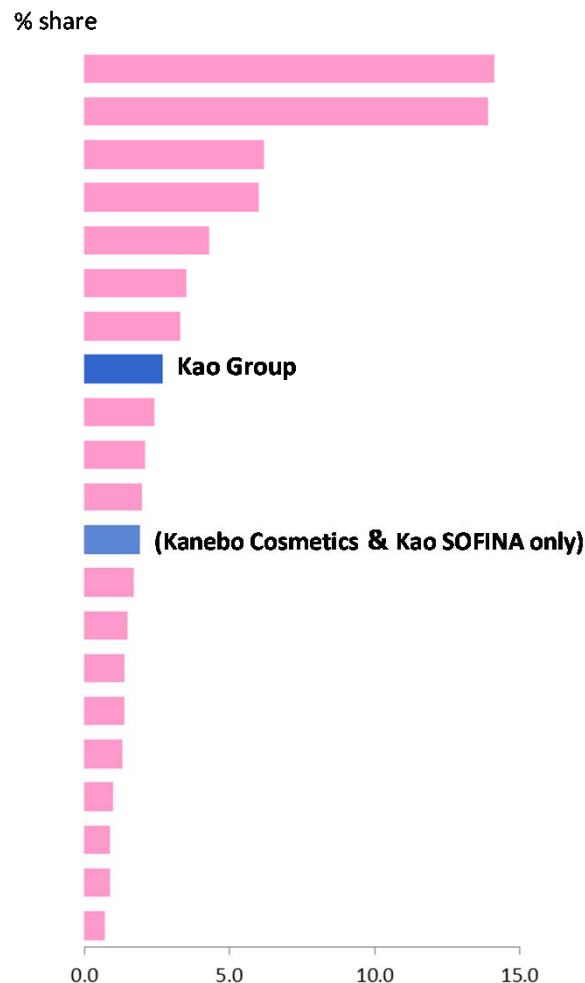
# Rankings of Kanebo and SOFINA in the World

- In markets around the world, Kanebo and SOFINA as well as other Japanese companies have fallen behind the global giants.

Source: Euromonitor International

Premium Beauty and Personal Care | World

2015 Company Share/Brand Share| Retail Value RSP | % breakdown



- Oligopoly market in which the top 20 have a 71.3% global share.
- Only 3 countries – France, USA and Japan – have the power to compete internationally.

## Country Share (within Top 20)

France:	28.3%
USA:	25.5%
Japan:	11.3%
South Korea:	3.8%
Spain:	1.5%



# Three Major Issues in Kao Group Cosmetics Business

1. Kanebo and SOFINA have similar brand images
2. Weak position in department stores/beauty specialty stores
3. Too much reliance on the domestic business

## - Three Major Changes in the Cosmetics Market -

### 1. Change in consumer behavior

- Change of purpose and purchase method for cosmetics
- Back to counseling from “self-selection” and “lower pricing”
- Polarized makeup market

### 2. Change in competition structure

- Global competition among different industries
- Competition with new entrants
- Dilution of brand identities of Kanebo and SOFINA

### 3. Change in position of Japanese market in Asia

- “Japan as a part of Asia”
- Japanese women’s fashion and cosmetics are becoming Asian standards.
- Change of market structure

Main players were Western companies in Asia.

# **II . Being Keen On Essentials**

**1 . Perspective on reform**

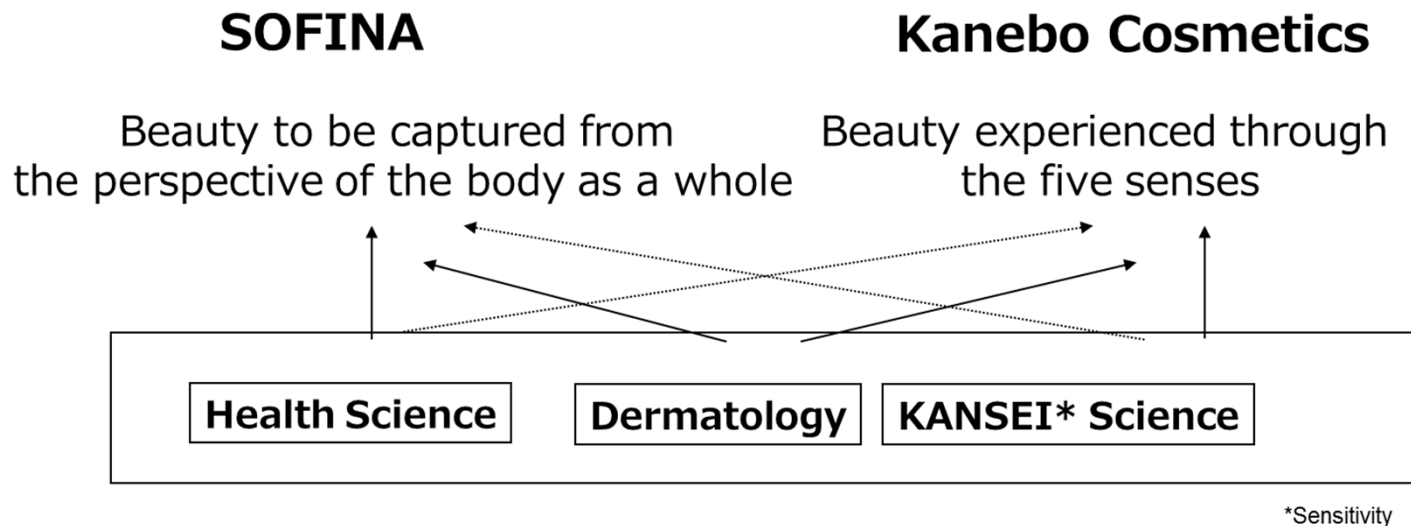
**2 . Vision for Kanebo and SOFINA**

# Perspective on Reform (3 Years Ago)

## Vision for the Cosmetics Business

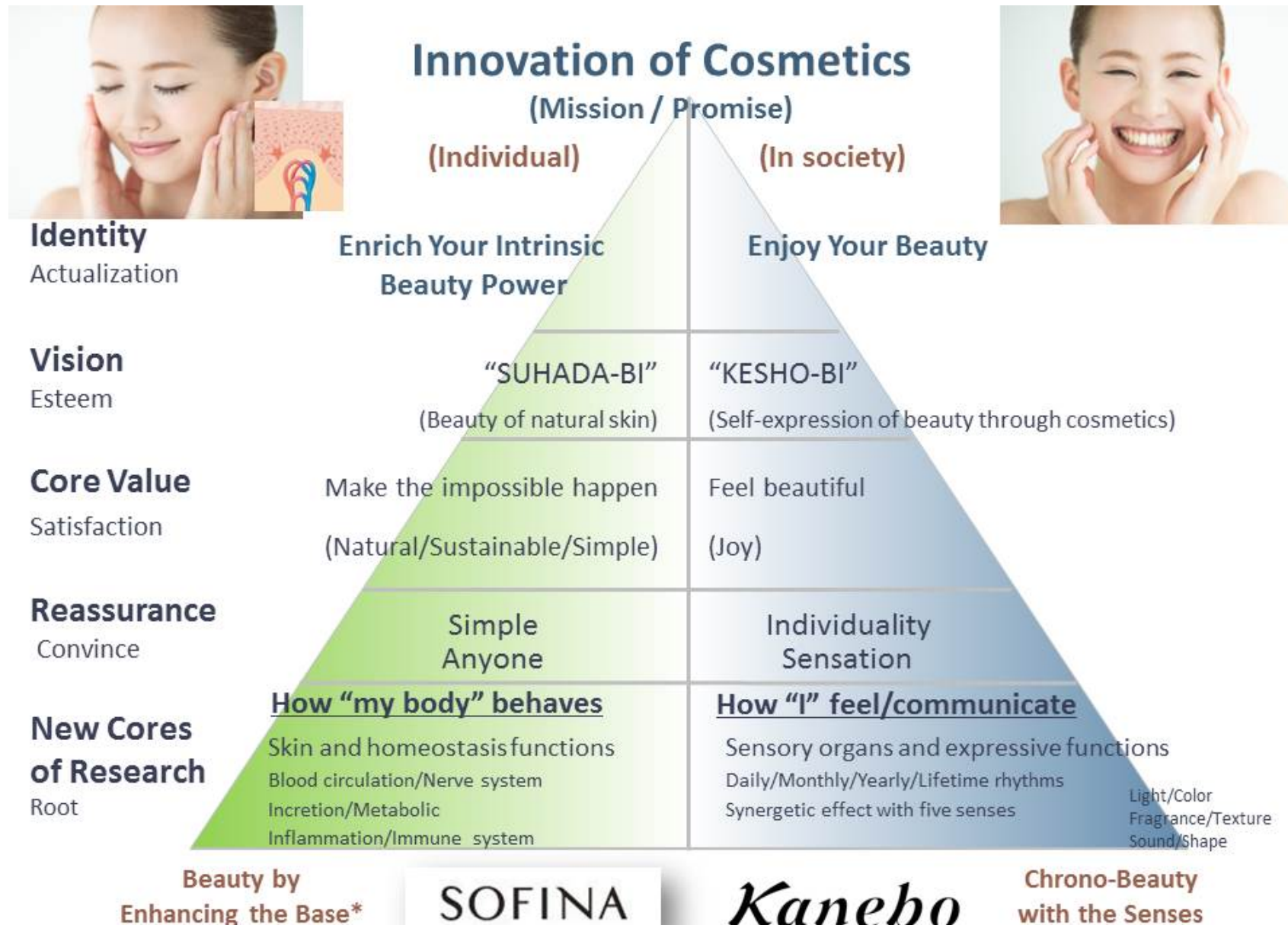
(Concrete Image)

Clarifying positioning of SOFINA and Kanebo



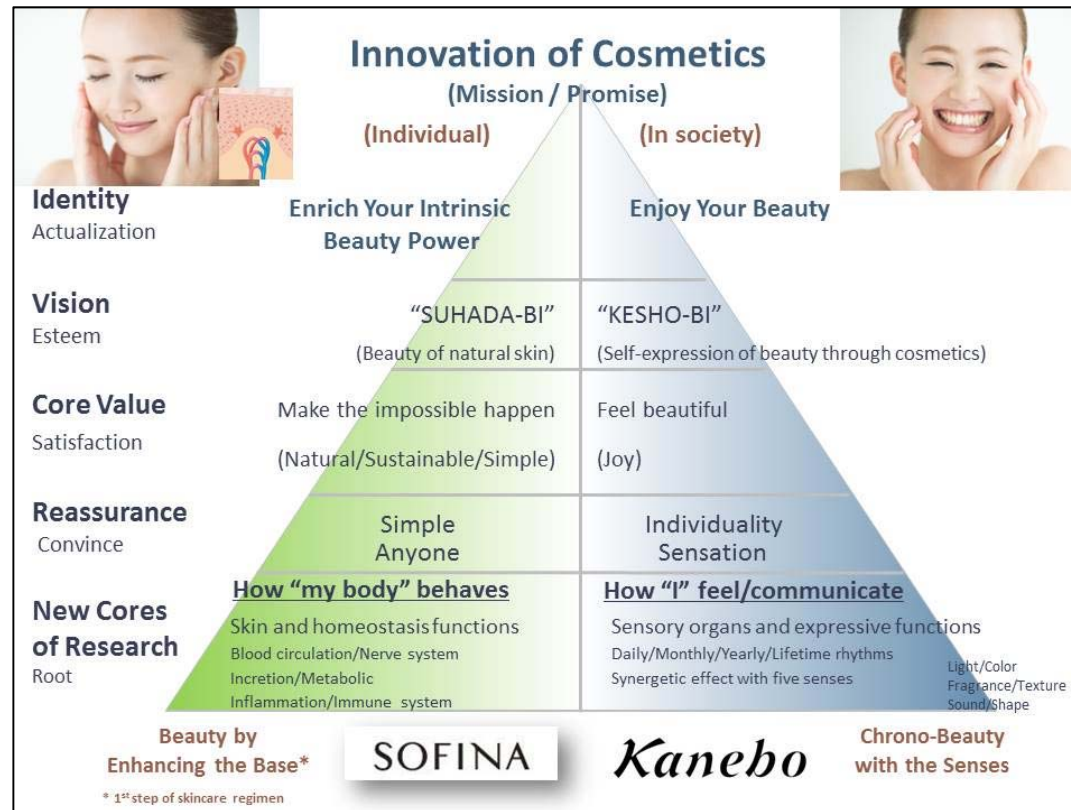
**Started reform project at each of Kanebo and SOFINA  
for the skincare area where each identity had become unclear.**

# Vision for Kanebo and SOFINA



\* 1<sup>st</sup> step of skincare regimen

# Brightening Identities of Kanebo and SOFINA



Sources of identity

Product Design Concept	Holistic Beauty Science	Sensorial Beauty (designed for the five senses)
Counseling	Counseling to enhance skin's regeneration	Chrono-Beauty counseling
Branding	One SOFINA	Brand Constellation

# **III. Brightening Up Our Brands**

## **1. Kanebo reform**

- Strengthen competitiveness  
with the 80-year heritage of Kanebo**

## **2. SOFINA reform**

- Go beyond the conventional world of cosmetics**



# 1. Kanebo Reform

- Strengthen competitiveness with the 80-year heritage of Kanebo

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# 1) *Yoki-Monozukuri*,\* Production for the Five Senses

- Developing individual artisan skills and implicit knowledge to strengthen our organization's capabilities
- Deepening affective science research and promoting design for the five senses





# 1) Yoki-Monozukuri, Production for the Five Senses

Deepening affective science research  
and promoting design for the five senses

## Rich Rose Bubble Face Wash

Transform face wash from “obligation” to “fun”

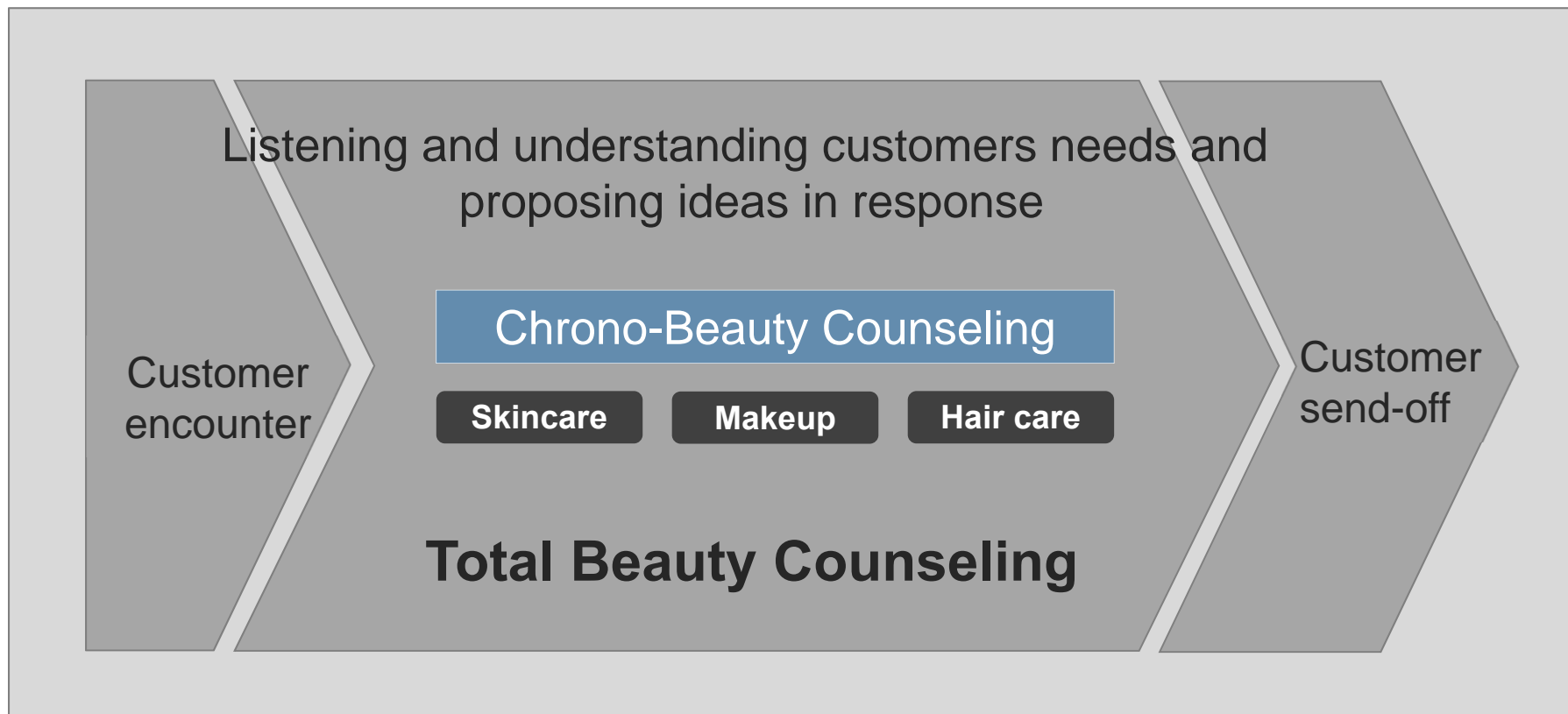
Aging care that makes you feel beautiful



## 2) Chrono-Beauty Counseling

Developing friendly counseling as an organization capability

Integrating counseling for various brands to create “Total Kanebo Counseling”



The “Arigato Credo” (Our promises to customers)

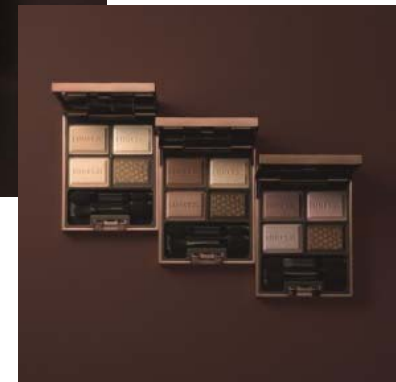
### 3) Brand Constellation

Project 1: Expand KATE TOKYO to Asia

(From 2014)

Project 2: Reinforce LUNASOL branding

(From 2015)



# 3) Brand Constellation

## KATE TOKYO Strategy

- Strong linkage to Tokyo's urban culture
  - make the brand representative of Japan —
- The polar opposite of Western brands in the global market
- Products designed to suit women in Asia — New beauty standards for Asian women
- The makeup brand for women who select for themselves — self-selection brand —



Light & shadow vs. Volume

Silent beauty vs. Outspoken beauty

Enchanting beauty vs. Assertive beauty

Fantasy vs. Reality

### 3) Brand Constellation

#### KATE TOKYO Strategy



##### Promote globalization

Establish advantage of differentiation from Western brands by leveraging Tokyo trends and KATE's unique makeup method.

##### 1. Establish firm position in Japan

- 1) Expansion of No. 1 categories  
(Eyebrow and eyes + foundation)
- 2) Expansion of STATIONS

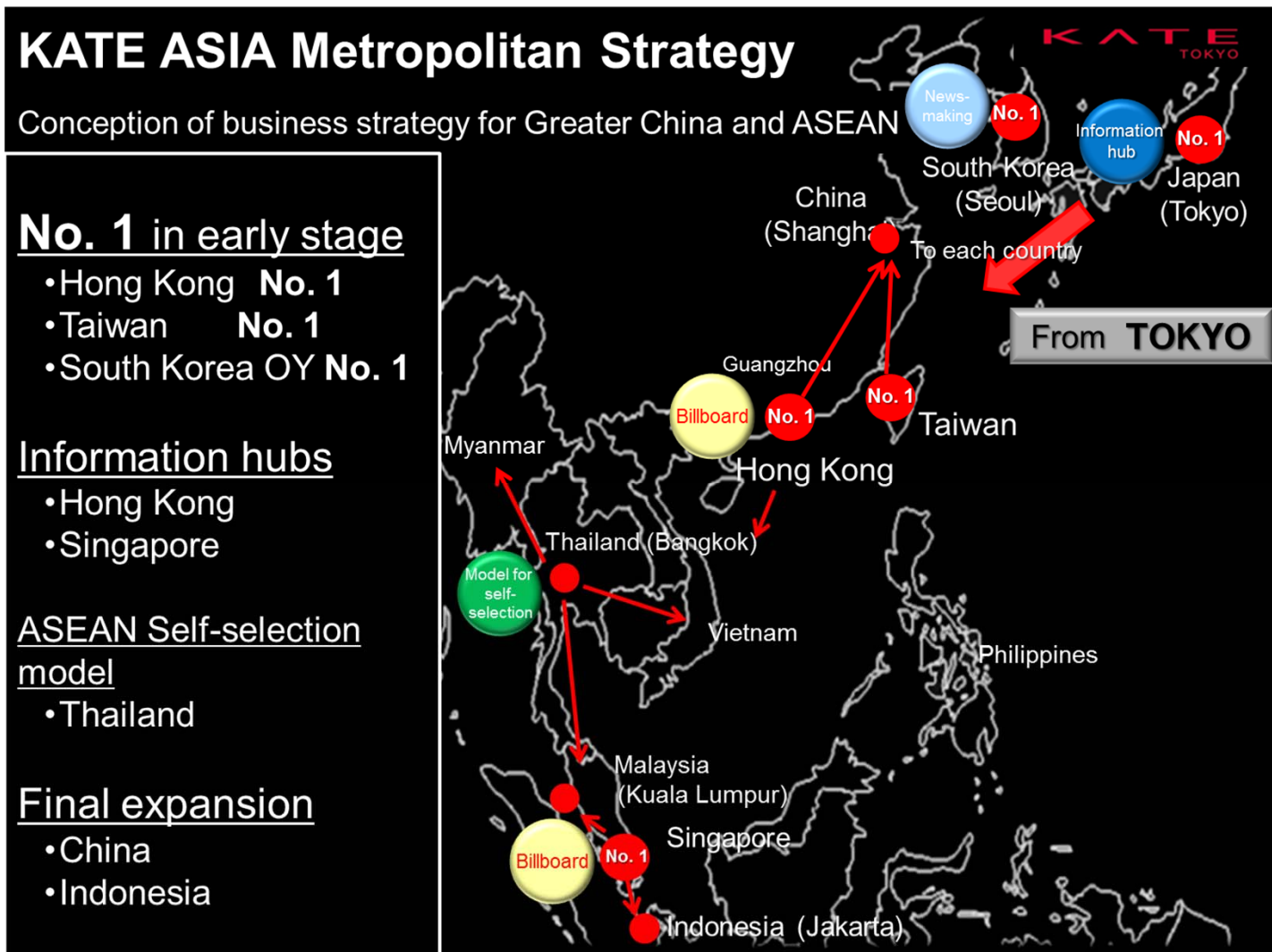
##### 2. Acceleration of growth in Asia

- 1) Increase brand awareness
- 2) Strategic categories,  
localized products
- 3) Metropolitan strategy + SNS



### 3) Brand Constellation

#### KATE TOKYO Strategy



### 3) Brand Constellation

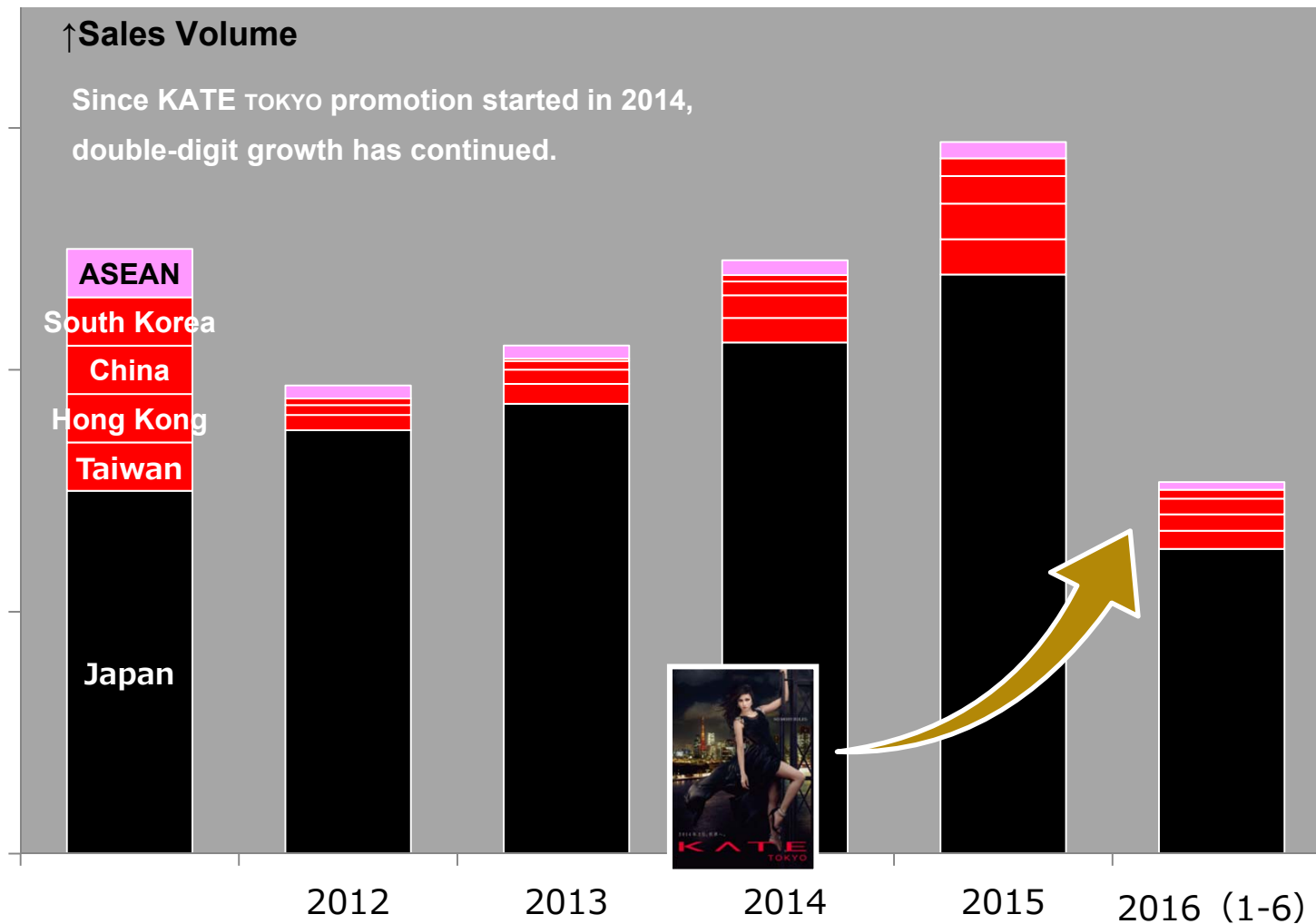
#### KATE TOKYO Strategy

- Marketing in metropolises



### 3) Brand Constellation

#### KATE TOKYO Strategy - Sales growth





### 3) Brand Constellation

Project 3: Launch the global brand KANEBO in 2016

**KANEBO** From Sept. 2016



# 3) Brand Constellation

## Commitment to the global brand KANEBO

1. A symbol for the **debut** of new Kanebo Cosmetics

2. **Consolidating and deepening** the lifelong assets of Kanebo Cosmetics

Comprehensive collection of the most advanced technologies and counseling expertise  
Production based on design for the five senses and counseling based on chrono-beauty

3. Creating a one-of-a-kind brand: **New prestige**

An image not defined by gorgeousness or fantasy  
A realistic image of a woman with a simple lifestyle  
A simple, uncomplicated product lineup  
Products that respond to the rhythm of a woman's beauty  
Individual skincare programs that customers do with their own hands  
Lessons at counters to teach unique methods using power of the hands



### 3) Brand Constellation

#### New value offering

##### Conventional Prestige

High class to show off  
luxury  
Aspires to classic luxury  
brands

##### New Prestige

High quality that is  
natural, real  
and elicits empathy

### 3) Brand Constellation

2014

2015

2016

2017

**Project 1: Expand KATE TOKYO to Asia**



**Project 2: Reinforce LUNASOL branding**

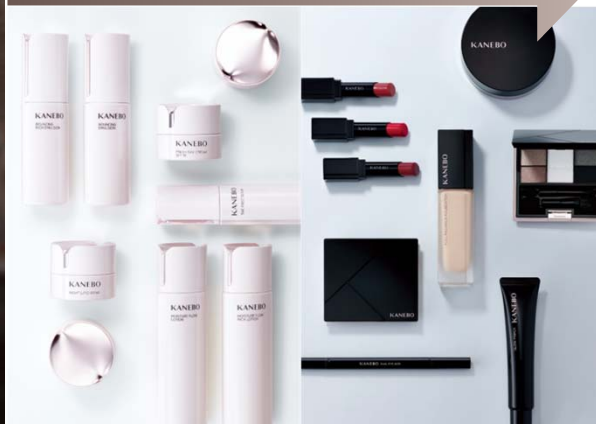


**Project 3: Launch the global brand KANEBO**

**Project 4: Enhance collaboration for suisai and freeplus brands in Asia**



**Project 5: Strengthen skincare in mass market**



## 2. SOFINA Reform

- Go beyond the conventional world of cosmetics

### Brightening Identities of Kanebo and SOFINA

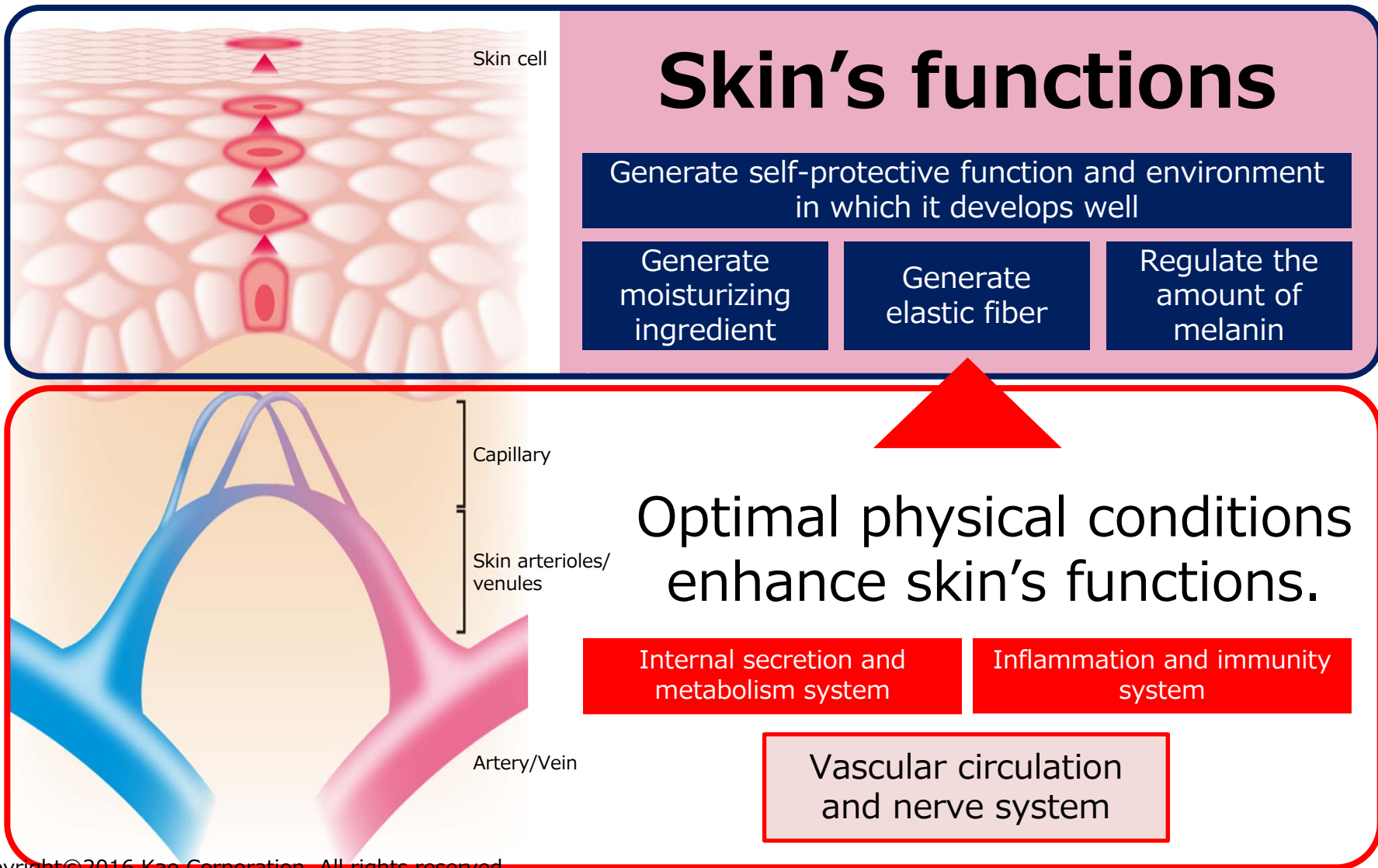


Sources of identity

Product Design Concept	Holistic Beauty Science	Sensorial Beauty (designed for the five senses)
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# Holistic Beauty Science at Kao

Beautiful skin from the whole body





Newspaper Ad  
(15 columns)

1/6 (Wed.) Yomiuri, Asahi, Nikkei

美しい肌の限界を越える。

花王の肌研究は、  
新たなステージへ。

皮膚科学は、生命美容科学へ。

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Newspaper Ads  
(5 columns)

1/13 (Wed.) Yomiuri, Asahi, Nikkei

SOFINA

土台美容液、誕生。  
瑞々しさが湧き上がる。

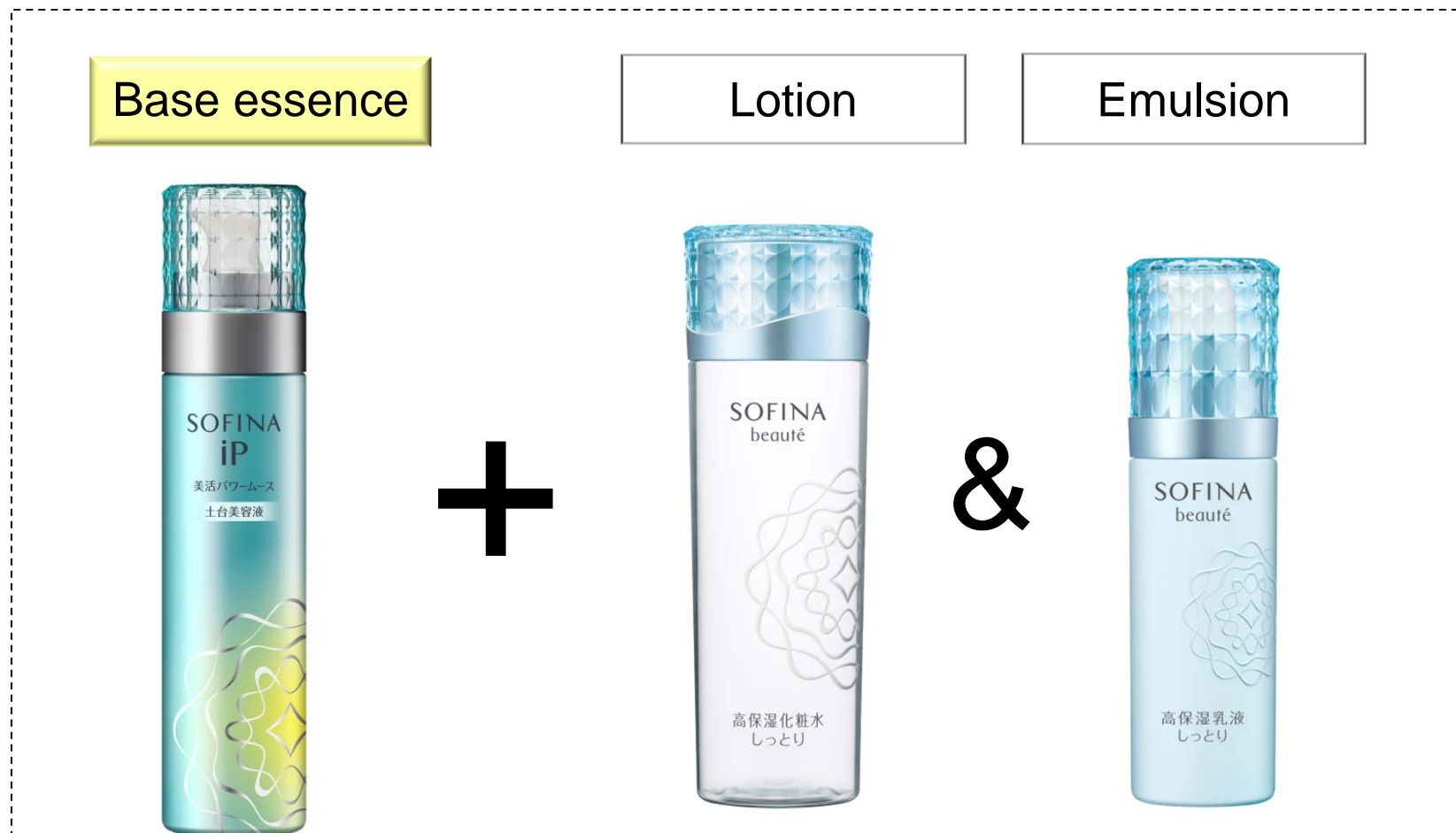
お手入れの土台から変える。まずは10日間。

SOFINA

花王独自の生命美容科学を結集。  
クロロゲン酸 美活飲料、誕生。

自ら美しくなろうとする力に着目。

# SOFINA's New 3-Step Program



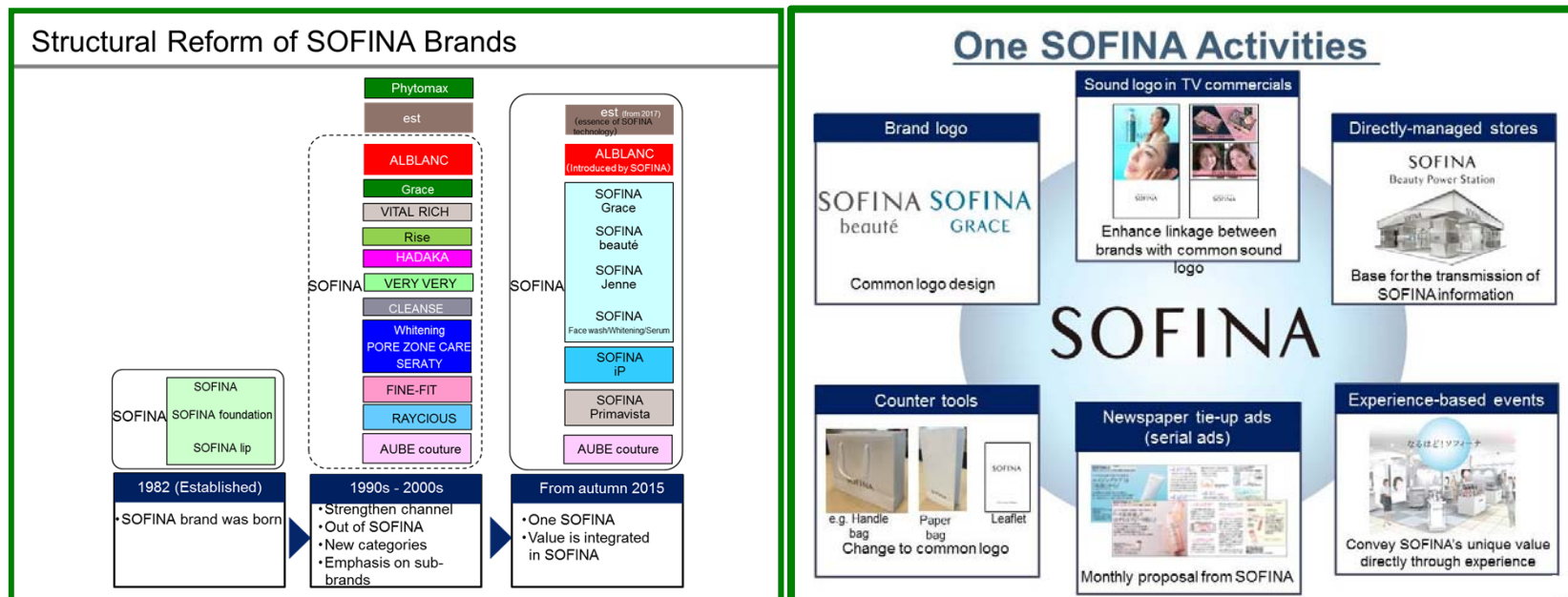




# One SOFINA

- Simple brand structure
- Strengthen activities for SOFINA

- Present a clear SOFINA image to customers
- Improve investment efficiency by reducing number of sub-brands
- Improve scale, quality and investment efficiency of marketing activities



# One SOFINA Activities

## Brand logo

SOFINA SOFINA  
beauté GRACE

Common logo design

## Sound logo in TV commercials



Enhance linkage between brands  
with common sound logo

## Directly-managed stores

SOFINA  
Beauty Power Station



Base for the transmission of  
SOFINA information

# SOFINA

## Counter tools



e.g. Handle bag Paper bag Leaflet  
Change to common logo

## Newspaper tie-up ads (serial ads)



Monthly proposal from SOFINA

## Experience-based events



Convey SOFINA's unique value  
directly through experience


# One SOFINA


Moving to a structure in which **value is integrated** in SOFINA (One SOFINA)

Note: iP is used in common for all brands 1) Mass SOFINA basic skincare 2) est put under SOFINA

SOFINA				
Face wash	Basic skincare		Serum	est * Autumn 2017-  ALBLANC
SOFINA	SOFINA GRACE		SOFINA	
	SOFINA beauté			
	SOFINA jenne			

SOFINA  
iP

  
Base essence

  
SOFINA drink



# Brightening Identities of Kanebo and SOFINA



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## **IV. Our Vision for the Cosmetics Business**

### **1. ODAWARA, Transmitting Beauty to the World**

### **2. Our Vision**

# ODAWARA, Transmitting Beauty to the World

July 2015: New factory building completed, expanding capacity 1.5 times

Sep. 2016: New building completed as the hub of cosmetics R&D

## **ODAWARA Factory**

- Ample pure water available from Mt. Fuji and the Tanzawa mountains
- ISO14001-compliant eco-friendly factory



## **ODAWARA R&D**

- fMRI-equipped
- COCOLAB (“Heart” Laboratory)





# Vision for Kao Group's Cosmetics Business

## To Be the Leading Cosmetics Company in Asia

<b>Sales</b>	Over <b>300 billion yen</b>
<b>Op. Income Ratio</b>	Approx. <b>10%</b>
<b>Overseas Sales Ratio</b>	Over <b>20%</b>

### Strategy 1) Focusing on 3 Priority Brands + Nurturing 5 Brands

- Focusing on investment in KANEBO, KATE TOKYO, SOFINA
- Nurturing SENSAI, LUNASOL, freeplus, suisai and RMK

### 2) Product Development and SCM network for Asia

- Special KATE products for Asia
- Developing Primavista Ange

### 3) Focus on metropolises and utilize SNS/e-commerce

- Concentrated marketing in metropolises
- Utilizing e-commerce with latecomer's advantage
- \*China: Expansion after reform

## Strengthening Brand Identity

**Kanebo:** Beauty experienced through the five senses

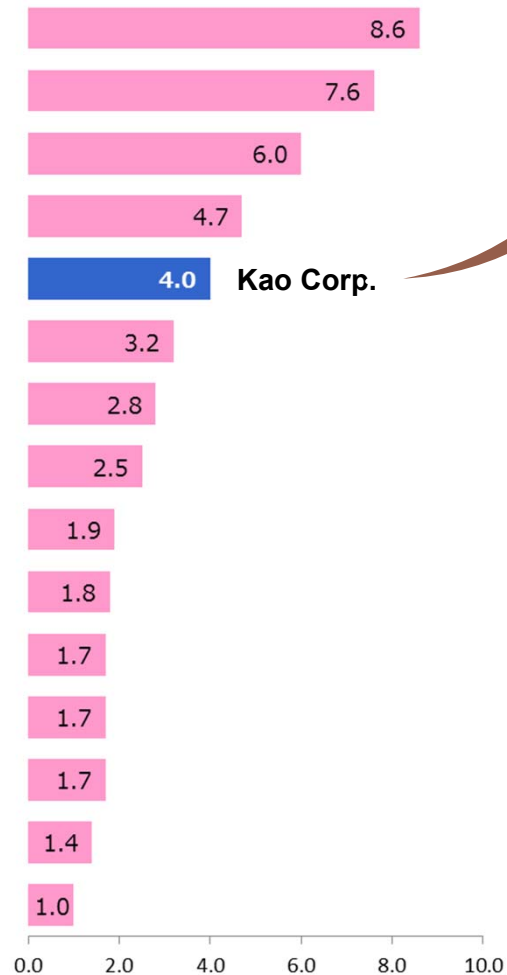
**SOFINA:** Holistic beauty to be captured from the perspective of the body as a whole

# Top 15 Cosmetics Companies' Market Share in Asia

Reference: Euromonitor International 2016

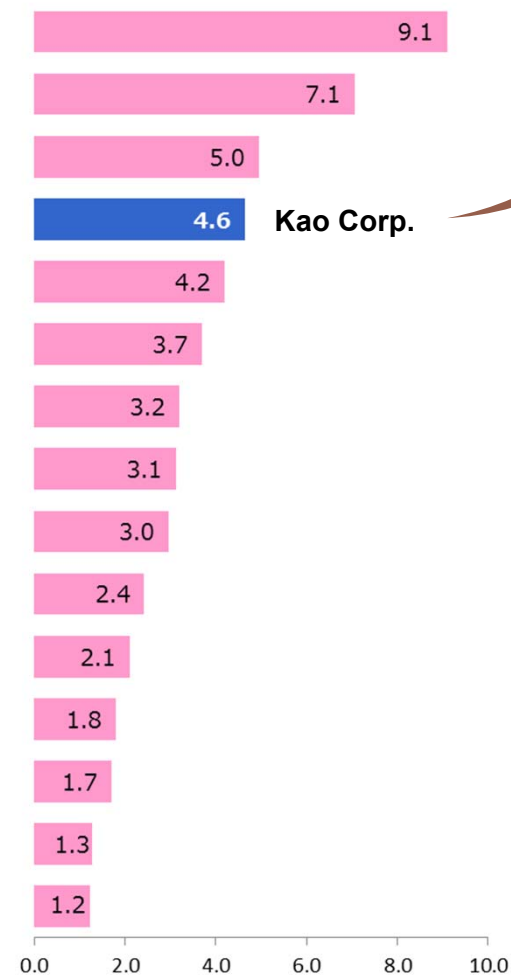
## Beauty & Personal Care (2015)

Share (%)



## Colour Cosmetics & Skin Care (2015)

Share (%)



# Basic Strategies for Global Brands

## 1. Focusing on Asia with 3 Priority Brands

KATE TOKYO	Expand in China and build flagship stores in ASEAN
SOFINA	Expand in China centered on e-commerce and enter ASEAN
KANEBO	Build flagship stores in each country

## 2. Nurturing 5 Brands

SENSAI	Strengthen core products and enter Asia
LUNASOL	Build brand presence with counters separate from Impress/KANEBO
RMK	Acquire younger customers with re-branding
suisai	Strengthen the brand with re-staging
freeplus	Expand to East Asia from Japan and China

Prestige	KANEBO SENSAI LUNASOL RMK
Masstige	SOFINA freeplus suisai
Premium-mass	KATE TOKYO

# Develop Special Products for Asia

Different makeup preferences

Skin concerns with hot and humid climates

Spring 2013  
Primavista Ange (Taiwan)

Autumn 2014  
KATE TOKYO: Lipsticks and eyeshadows for Asia

Primavista *Ange*



In 2013



In 2014



In 2016



# China: Expansion after Reform

## 2013 – 2015

- Focus, focus, focus strategy  
with selected brands, SKUs and stores

Kanebo: 12 brands to 3 brands/1,700 SKUs to 300 SKUs

SOFINA: 60 stores to 15 stores

*Kanebo*

KATE TOKYO to expand Area Dominance Strategy,  
from Shanghai to other major cities



Implement joint counters for freeplus & KATE TOKYO

Cooperate with local partners to improve efficiencies/productivity

SOFINA

Select physical retail points in Shanghai

+ expand coverage with e-commerce

Build customer base with e-commerce,

then open stores in areas where customer base is built

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