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Unlocking hyper-growth in Asia's luxury beauty landscape

LUXASIA | KEARNEY

Assessment of the opportunities in luxury beauty across Asia reveals that markets in Southeast Asia and India will be the next gold rush—and there's no time to lose. Six moves can help luxury brands tap into a wealth of value.

Executive summary

With a CAGR of 11 percent over the next five years, Asia is the world's largest, fastest-growing, and most promising region for luxury beauty brands.[1] Within this region, Southeast Asia and India are the next gold rush for international beauty brands. China, Japan, and Korea—the biggest markets in Asia—are now mature and seeing intense local competition. In contrast, the luxury beauty market in Southeast Asia (SEA) and India is expected to triple in size over the next ten years; and brands that enter now will enjoy a decade of exponential growth.[2]

However, this fragmented region is complicated, and new entrants will face six major challenges:

— Multidimensional omni-retail networks

— Heterogeneous local product preferences

— Divergent marketing approaches

— Challenging regulatory frameworks

— Costly and idiosyncratic supply chain landscapes

— Partner selection amid information asymmetry

What's needed is a nuanced and fine-tuned approach, rather than a one-size-fits-all playbook. Paying attention to the following six imperatives will set luxury beauty brands up for success in Southeast Asia and India.

— Optimize the retail footprint to create multi-touchpoint experience hubs.

— Harness continued e-commerce growth unique to each market.

— Forge capabilities to ride social commerce acceleration.

— Build deep local consumer understanding through data aggregation and analytics.

— Leverage logistics partners to build a robust and flexible network.

— Win with the right omnichannel brand-building partners.

[1] Euromonitor
[2] Southeast Asia markets are defined as Indonesia, Malaysia, The Philippines, Singapore, Thailand, and Vietnam.

Asia is the largest and fastest growing region for luxury beauty

Home to more than half of the world's consumers, Asia is packed with promise—both as the largest region for luxury beauty and as the fastest-growing region in the world with an estimated CAGR of 11 percent.

As we approach the end of the first quarter of the 21st century, China, Japan, and South Korea—the largest markets for luxury beauty in Asia—have begun to saturate. Stiff competition and heightened consumer maturity are making it more challenging for brands to win consumers and scale fast in these large markets. Global luxury beauty brands such as Chanel, Dior, Estée Lauder—which entered early—and L'Oréal have thrived as the affluent middle-class penchant for luxury, quality, and associated social status has grown. Many mammoth Asian brands such as Shiseido, SK-II, and Sulwhasoo have also established their brand legacies, gaining local dominance and international renown. These early entrants have already achieved a strong market share, considerable mindshare, and robust organic growth. Now, late entrants will find it challenging to gain a foothold in a costly battle to win marginal market share, reducing the risk-adjusted returns.

For the first two decades of the 21st century, China was the poster child of luxury brands. However, new entrants are facing tough competition from established international brands along with increasingly popular domestic brands. To attract Chinese consumers, the established domestic brands, such as Cha Ling, Chando, Florasis, Herborist, Perfect Diary, and Wei Beauty, are armed with robust in-house R&D, lean manufacturing, access to comprehensive distribution networks, and customized products founded on years of curated market intelligence. This competitive moat is growing wider amid the operational challenges of mastering the unique Chinese ecosystem that dominates local consumers' everyday lives, including platforms such as Douyin, Little Red Book, TMall, and WeChat. The fact that each dollar invested in advertising and promotions is swiftly crowded out by the thousands that others spend exacerbates the challenges.
In addition to the economic considerations, brands need to be perceptive of the cultural nuances and political sensitivities in marketing. These factors make China a complex and challenging market, albeit a massive opportunity if done right.

Japan, the second largest luxury beauty market in Asia, is dominated by some early-entry global luxury beauty brands and domestic brands such as Albion, Kanebo, Kao, Kose, Pola, Shiseido, and SK-II—brands that resonate with Japanese consumers, coupled with a promise to be effective for Asian skin types. These brands tend to have deep channel penetration and trade relationships in Japan's complex distribution landscape, focusing on department stores and selected chain stores. Local consumers tend to be loyal, sticking to products that they are satisfied with and are less likely to jump on new trends or adopt new product formats. As such, new entrants will find it challenging to gain a foothold against the local giants.

Similarly, luxury beauty in South Korea has its own challenges. Beauty trends are changing rapidly, and domestic brands such as Dr Jart+, Etude House, Laneige, and Sulwhasoo are drawing strength from their home-field advantages of fast-paced R&D, swift production, and an extensive network of suppliers and subcontractors to respond to and lead market trends. Aspiring independent brands may find it challenging to keep pace in the long run.

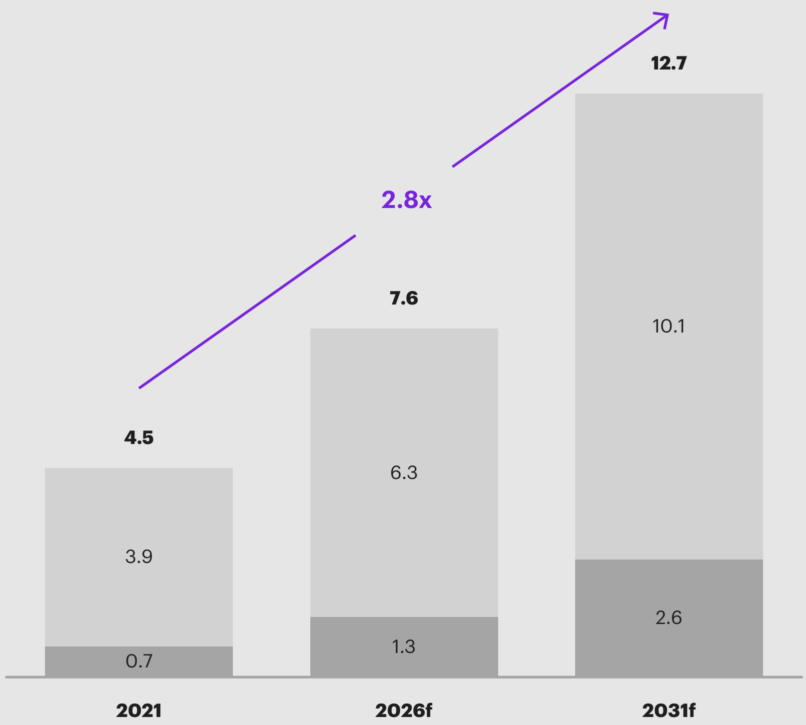
Southeast Asia and India are luxury beauty's next gold rush

Although international brands must have a presence in China, Japan, and South Korea, the golden window of opportunity for the next decade will be in the fast-emerging SEA and India markets. Brands that add this geographic diversification to their footprint are likely to get a higher return on capital and develop a substantial business segment—benefitting from an earlier-mover advantage as well as from the structural growth of these markets. There is no more time to delay. Brands that hope to capitalize on and dominate the region need to enter now.

By 2026, the market potential of luxury beauty in SEA and India is estimated to be $7.6 billion, an 11 percent CAGR from $4.5 billion in 2021, which is an average of about $1 billion additional luxury beauty spend coming into this space every two years. This strong growth is expected to continue: in 10 years, the market size will almost triple (see figure 1). Compared to the estimated global luxury beauty industry growth rate of between 4 and 6 percent, the region is clearly the place to invest in and the place to be.

Figure 1
The luxury beauty market in Southeast Asia and India is slated to triple in size in a decade with a CAGR of 11%

Luxury beauty market
($ billion)



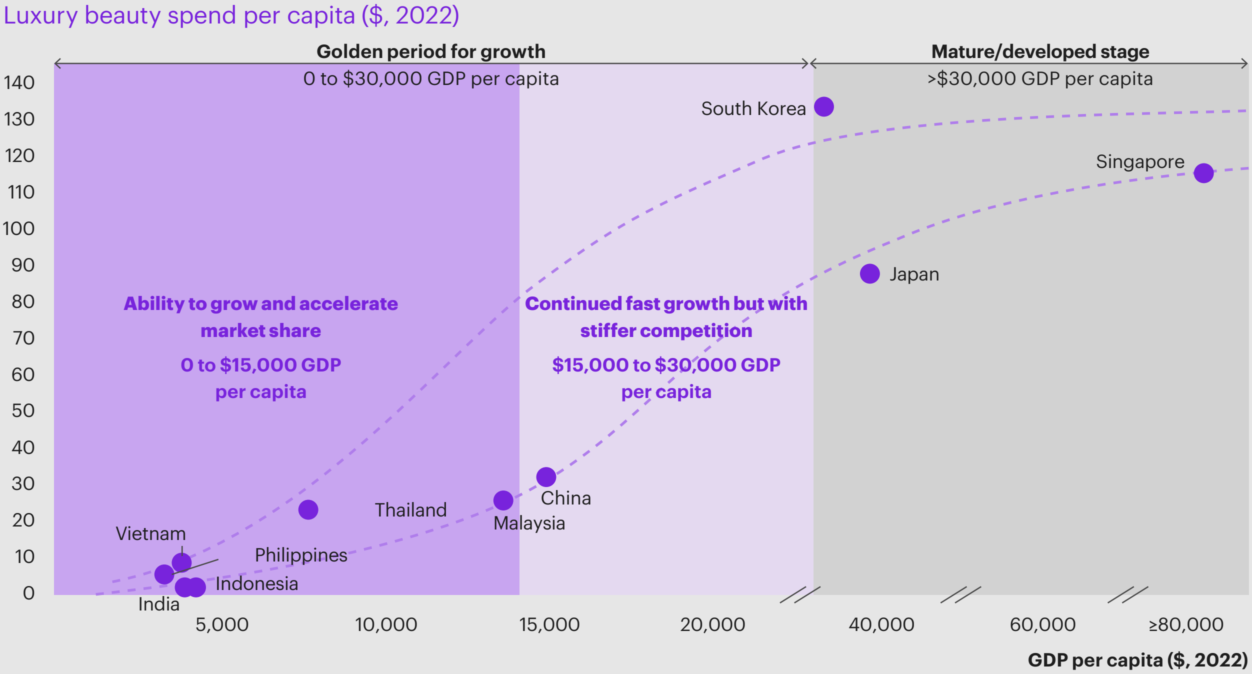
Sources: Euromonitor; Kearney–LUXASIA analysis

Our research also reveals that SEA and India are nearing an inflection point and are poised to enjoy a decade of double-digit growth in luxury beauty (see figure 2). These market conditions trigger the proliferation of local beauty brands, which tend to play in the masstige category, leaving the luxury beauty segment as an opportunity for international brands.

We believe these fast-growing Southeast Asia and India luxury beauty markets will continue to be dominated by international brands. Local brands constitute up to 40 percent of the market in mature markets (see figure 3 on page 5). In contrast, emerging markets have a much lower presence of local luxury brands. As observed in the growth journey of the China, Japan, and South Korea luxury beauty markets, we find that homegrown luxury beauty brands tend to emerge and compete against international ones as a market matures. We believe SEA and India are still far from this point—and therein lies a limited but timely window of golden opportunity for global luxury beauty brands.

Countries at this point of the trajectory generally have a sizable yet swiftly growing middle class. As economies in SEA and India mature, more consumers will invariably move up the economic ladder and trade up from mass to luxury. This region's combined size of the middle- and high-income classes is projected to surpass 1 billion in 2026 (see figure 4 on page 5). Overall, we find that India, Thailand, Vietnam, Indonesia, and The Philippines hold the most promise.

Figure 2
Southeast Asia and India are reaching the inflection point of growth in luxury beauty

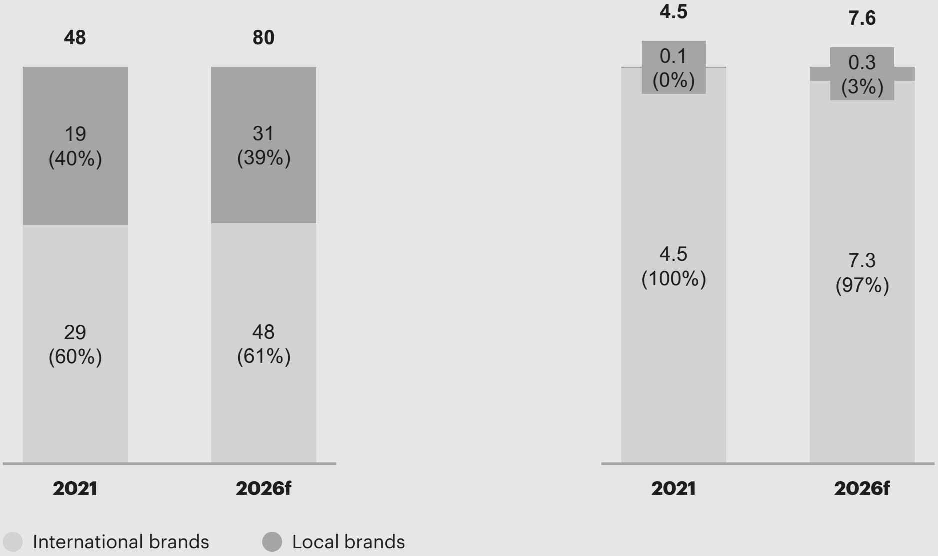


Sources: Euromonitor; Kearney–LUXASIA analysis

Figure 3

Luxury beauty in emerging markets will continue to be dominated by international brands

Breakdown of luxury beauty brands ($ billion)



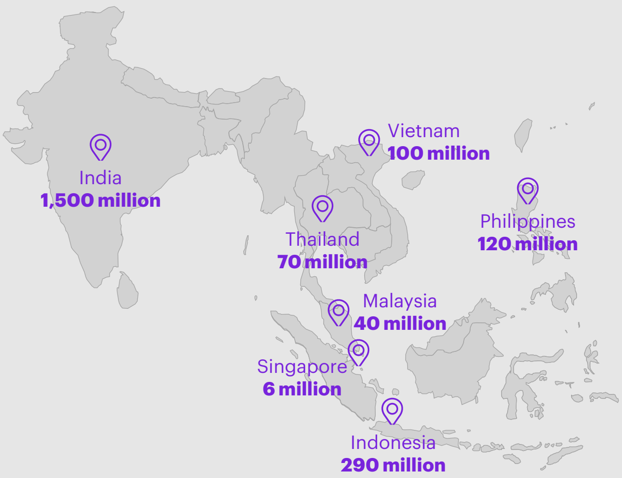
Sources: Euromonitor; Kearney–LUXASIA analysis

Figure 4

Southeast Asia and India will see healthy growth in their middle- and high-income population

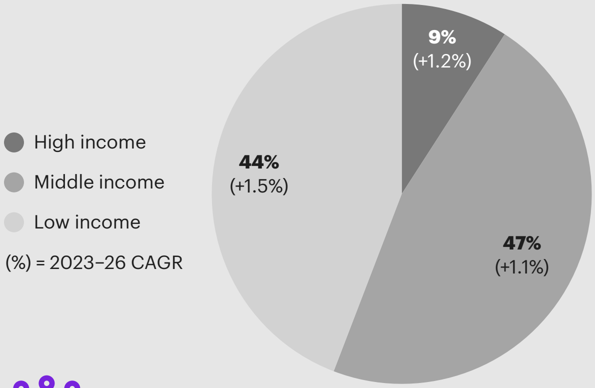
The population is estimated to surpass 2 billion in 2026.

2026 population



More than 1 billion middle- and high-income consumers in 2026.

2026 population by income



More than 1 billion

Estimated number of middle- and high-income consumers in 2026

Sources: World Bank, Euromonitor; Kearney–LUXASIA analysis

Six challenges in luxury brand-building in Southeast Asia and India

In the past, the operating model for luxury beauty in emerging markets was straightforward: partner with an in-market importer in each country, who would register and bring in the brand's products and then distribute them to different retailers/points of sale.

Today, the situation is far more complex. A one-size-fits-all operating model no longer works because success depends on fine-tuning the brand strategy in each market.

Brands have to be present across all channels. Today's brands need to have a presence in traditional channels such as chain stores, classic department stores, as well as rapidly evolving channels such as brand standalone stores, and e-commerce marketplaces.

Each brand needs a different strategy. A brand that already has brand awareness and a prestige price point could follow a "chain store + e-commerce" strategy. In contrast, a brand with a luxury price point that is less well-known may need to invest in building strong brand awareness first and might need to have a standalone store or department store-driven strategy.

The strategy for a brand will be different by market. A brand with a chain store strategy in one market might need a standalone store or online-driven strategy in another market based on market depth, benchmarks, and latent brand awareness among consumers.

There is no longer a Southeast Asian consumer or an Indian consumer. Each consumer is now "glocal" and is likely aware of a brand's messaging in the US, Europe, and North Asia markets but also deeply rooted in local preferences. It's crucial to represent brands globally in an integrated manner and react locally to global trends.

Harnessing growth remains tricky in SEA and India as the market environment is diverse. Brands will face six major challenges in this diverse and fragmented region—not one size fits all (see figure 5).

1. Multidimensional omni-retail networks

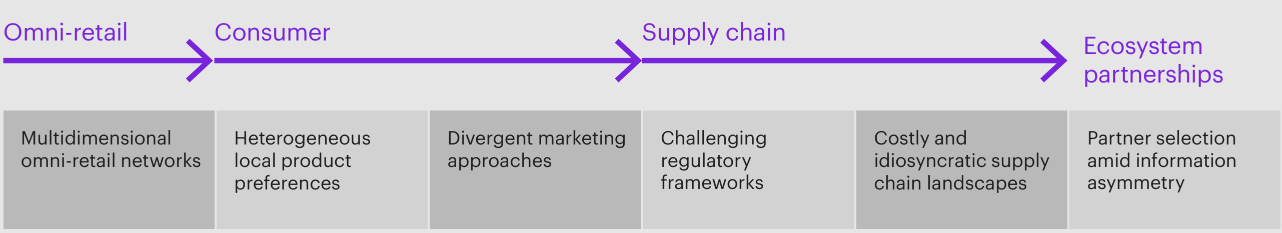
Today, the demands for luxury shopping have evolved to encompass retail, e-commerce, and social commerce. Exacerbated by the pandemic, brands now need to delight consumers online. The complexity of this online ecosystem is compounded by the heterogeneity of platforms and channels by market. Figure 6 on page 8 is a non-exhaustive introduction to the omnichannel network complexity in Southeast Asia and India.

Each country has nuances in how consumers interact with brands. Social selling and live streaming are creating direct-to-consumer sales opportunities. More consumers are purchasing directly from social media platforms, such as Facebook, Instagram and TikTok, and in-platform checkout will become the norm. Conversational and quick commerce are also gaining momentum thanks to WhatsApp, Messenger, Viber, and Line. Identifying the channel with the best return on investment is becoming more challenging.

2. Heterogeneous local product preferences

There is significant demographic diversity in SEA and India, where beauty is expressed, appreciated, and consumed differently.

Figure 5
Luxury brands are facing six challenges in Southeast Asia and India



Source: Kearney–LUXASIA analysis

Here are a few examples:

— **Singapore.** The niche fragrance segment is exploding rapidly with brands such as Byredo, Creed, Diptyque, Jo Malone, and Maison Francis Kurkdjian opening new standalone boutiques.

— **Malaysia.** Skincare consumers here tend to avoid heavy formulations with a sticky feel because of the humid weather.

— **Vietnam.** Fragrance consumers tend to prefer eau de parfum formulations over eau de toilette, unlike the rest of the region.

— **Indonesia.** The preferred aesthetic is full and heavy makeup, with a strong accentuation of the eyes and hair.

— **The Philippines.** Brands from the United States, such as Calvin Klein and Ralph Lauren, are very well-received here, thanks in part to a growing community of male consumers who express their individuality through beauty products.

— **India.** Makeup is the industry's mainstay, while skincare regimes are relatively minimalistic and fragrance demand is strong.

The above examples are just the tip of the iceberg. Multiplying preferences by category by market by demographics, brands could find themselves in a decision paralysis for product pipeline planning. Adding to these complexities, there will also be different preferences within the same demographic segment for each market (for example, Gen Zs of Thailand will favor different products than the Gen Zs of the Philippines). Moreover, information regarding these in-market product preferences takes time to gather.

3. Divergent marketing approaches

What attracts, activates, engages, and tips the purchasing decision for consumers in each market can be surprisingly dissimilar.

Here are a few examples of practical marketing mechanics:

— **Singapore.** Unique or limited-edition gifts-with-purchase work particularly well in driving up average transaction size.

— **Malaysia.** Samples and trial-size products help to effectively recruit new customers, especially at pop-ups. The return on investments in social media can lead the region.

— **Vietnam.** Key opinion leaders' product reviews, vlogs, and user-generated content are important factors in consumers' purchasing decisions.

— **Thailand.** Humor is the way to consumers' hearts. Entertaining campaigns with a local touch of humor go a long way to cementing brand equity.

— **Indonesia.** Social media advertising and key opinion leaders' endorsements are particularly effective. This triangulates with the finding that Indonesian consumers top the global charts on average daily time spent on mobile phones.[3]

— **The Philippines.** Consumers purchase in small basket sizes because of their lower average purchasing power. Hence, small products coupled with complimentary gifts work well.

— **India.** There is a "rise of minis" in which local consumers prefer customized product sizes coupled with value-pack offerings.

To build such consumer understanding, data from different languages will need to be consolidated on a proper technology infrastructure with personal data-protection requirements in place. Collecting this kind of data comprehensively is difficult, operationally tedious, and costly at times.

4. Challenging regulatory frameworks

Regulatory management is typically a support function for luxury brand development, but in SEA and India, it is a make-or-break point. With constantly changing regulatory frameworks influenced by local idiosyncrasies spanning language, culture, and even religion, mastery and speed are crucial. The onus is on the brand to keep up to date with regulations and quickly respond within deadlines.

The scope of regulatory requirements covers many domains, with complexities that are uniquely specific to each market:

Product registration. The biggest challenges include the variations in standards (including product testing criteria), having an understanding of the legal and statutory requirements, and the technical details of approved chemicals and allowable concentrations. For example, Indonesia and Thailand have banned cosmetic products containing plastic microbeads that can transport toxic chemicals into marine life. Another development to watch is Indonesia's push toward halal certification.

[3] "Indonesians glued to phones for a third of waking hours in 2021, report finds," *TechInAsia*, 28 February 2022

Figure 6
The omnichannel network in Southeast Asia and India is complex

Market	Department stores	Chain stores	E-commerce and online marketplaces	Social commerce	Others
Singapore	BHG, Isetan, Metro, Takashimaya, TANGS	escentials, Guardian, Novella, Sephora, Watson's	Amazon, Lazada, Qoo10, Shopee, Zalora	Facebook, Instagram, TikTok	Grab, Krisshop, "Retailer.com" sites, Strawberry.net
Malaysia	AEON, Isetan, Parkson, SOGO	escentials, Guardian, KENS Apothecary, Sasa, Sephora, Watsons	Hermo, Lazada, Qoo10, Shopee, Zalora	Facebook, Instagram, TikTok	"Retailer.com" sites
Vietnam	Lotte, Parkson, Robins, Takashimaya	AB Beauty, Beautybox, escentials, Guardian, Hasaki, Sociolla, Watson's	Lazada, Sendo, Shopee, thegioididong, Tiki	Influencers selling on FB, Instagram, TikTok, Zalo	"Retailer.com" sites
Thailand	Central, Emporium, Robinson, The Mall Group	Beautrium, Boots, escentials, Eve & Boy, KIS, Matsumoto, Sephora, Tsuruha, Watson's	JD.com, Lazada, Shopee	Facebook, Instagram, LINE	"Retailer.com" sites
Indonesia	Central, Debenhams, Galeries Lafayette, Matahari, Metro, Seibu, Sogo,	C&F Perfumery, Guardian, Sephora, Sociolla, Watson's	Blibli, Bukalapak, JD.com, Lazada, Shopee, Sociolla, Tokopedia	Facebook, Instagram Niche players: Raena (Beauty), TikTok	Gojek, "Retailer.com" sites
Philippines	Landmark, Robinsons, Rustan's, SM	The Look, Watson's	BeautyMNL, Lazada, Shopee, Zalora	Facebook, Instagram, TikTok	"Retailer.com" sites
India	Central, Lifestyle, Shoppers Stop	Boddess, Health & Glow, Nykaa, Sephora, SS BEAUTY, Tira	Amazon, Boddess, Flipkart, Myntra, Nykaa, Purplle, Tata CLiQ Luxury	Facebook, Instagram, KikoLive (lower-end), Meesho	MyGlamm.com, "Retailer.com sites," Sephora (hosted on nnnow.com)

Note: Players for each channel and market are presented in alphabetical order and non-exhaustive.
Source: Kearney–LUXASIA analysis

Product labeling. Labeling requirements vary across Southeast Asia and India with different levels of stringency in each country. For example, in Thailand, all cosmetic products must have Thai-language labeling within 30 days of the import date and before they are put on the market. It is a relief to many that other markets, such as Singapore, Malaysia, and the Philippines, permit cosmetic products labels to be printed in English. Even then, the devil is always in the details.

Inventory batch tracking. To illustrate this, we reference the Surat Keterangan Impor, an import certificate that is required for customs clearance in Indonesia. The latest requirement is that for every production batch of imported cosmetics, the company must keep two items per SKU per production batch for inspection on demand. For example, if three types of cosmetics with 15 colors each are imported, within which are six batches of production, then the brand would have to store 540 items until one year after their expiration date. (The total storage time could be three to six years for the local partner based on the general shelf life of products.)

5. Costly and idiosyncratic supply chain landscapes

In SEA and India, the heartbeat of luxury beauty tends to be in capital cities, followed by smaller pulses in each country's core cities. Hence, the key supply chain issues relate to how goods reach the capital cities (the artery of logistics), followed by the intra-country inter-city distribution (the veins and capillaries). Unlike the widely distributed fast-moving consumer goods brands, luxury beauty brands are selective about their distribution channels and do not reap the economies of scale that fast-moving brands enjoy.

Supply chain landscapes tend to be shaped by geographical endowment and infrastructure constraints:

- **Malaysia** is split into West Malaysia (the long peninsula) and East Malaysia (a vast island shared by Malaysia, Brunei, and Indonesia), separated by the South China Sea.
- **Vietnam** is a narrow but very long market that enjoys good sea access, with Singapore being closer to Ho Chi Minh City than it is to Hanoi. Interestingly, Ho Chi Minh City complements Hanoi in Vietnam like Shanghai complements Beijing in China.
- **Indonesia** is a notoriously challenging archipelago for logistics, with more than 17,000 islands. However, commerce concentrates in key cities, such as Jakarta, Surabaya, and Medan.
- **The Philippines** is yet another challenging archipelago with more than 7,000 islands. While the region of metro Manila represents just 0.2 percent of the country, it accounts for 36 percent of the country's GDP and is a critical economic region.
- **India** market demand for luxury beauty products exists beyond the metros and tier 1 cities. As such, it is vital to solve for distribution across the country.

Also, regional and local third-party logistics companies have varying levels of presence and competency, so working with a regional partner and capitalizing on the speed and reach of local partners can be the optimal solution.

6. Partner selection amid information asymmetry

Although a strong track record and years of operation are essential when choosing partners, it's also vital to assess that they can innovate and adapt to a changing market environment. As these various markets mature, the ways to reach and market to consumers will also evolve. At the same time, given the relative immaturity of the SEA and Indian markets, it is tough for brands to have complete information about the local context and partners.

As markets evolve faster and volatility increases, it will be important to work with agile partners in the most effective way:

Long-term. Ensure that the partner is thinking about long-term brand-building (over decades rather than months or years) rather than a transactional relationship for short-term profit.

Transparent. Especially in the initial years, both partners will need to experiment together to find a suitable model for the brand in each market. Transparency will help both partners build trust, co-innovate, and quickly formulate a winning strategy in close collaboration.

Six execution imperatives for brand-building in Southeast Asia and India

The challenges for luxury beauty in SEA and India outlined in the previous section will require deliberate execution while keeping in mind the following six imperatives (see figure 7).

Before a brand enters these markets, they should think through their regional market entry and expansion strategy, answering the following four questions:

Which markets? A mix of factors drives this decision: potential revenue size, growth trajectory, branding impact, consumer sentiment, signaling effect, first-mover advantages, tactical expansion to block competition, risk appetite, and risk-adjusted rewards.

At what speed? Do you enter all of the regional markets at the same time or launch sequentially? Some organizations opt for sequential launches over a longer period of time as opposed to a fast multimarket approach that runs the risk of suboptimal launches in some or even all markets.

What are the key operating elements? A greenfield entry would require setting up a legal entity with local reporting requirements. Regardless of entry mode, key operating elements such as product registration and regulatory management, sales and marketing, demand-planning, point-of-sale registration, supply chain, financial reporting, transactional accounting, certain human resources, technology, and infrastructure management must all be present.

What is the investment and risk appetite? This question tends to be a very sobering reality. Funding needs and operating costs must be carefully considered to engender a successful launch and long-term growth.

Figure 7
Brands in Southeast Asia and India can unlock a wealth of value with six imperatives

Omni-retail	Consumer		Supply chain		Ecosystem partnerships
Multidimensional omni-retail networks	Heterogeneous local product preferences	Divergent marketing approaches	Challenging regulatory frameworks	Costly and idiosyncratic supply chain landscapes	Partner selection amid information asymmetry

Omnichannel and consumer mastery

1. Optimize the retail footprint to create multi-touchpoint experience hubs.
2. Harness continued e-commerce growth unique to each market.
3. Forge capabilities to ride social commerce acceleration.
4. Build deep local consumer understanding through data aggregation and analytics.

Flexible go-to-market approach

5. Leverage logistics partners to build a robust and flexible network.
6. Win with the right omnichannel brand-building partners.

Source: Kearney–LUXASIA analysis

1. Optimize the retail footprint to create multi-touchpoint experience hubs

As the pandemic de-escalated to an endemic, there has been a sharp revival in retail footfall. However, today's consumers are also very comfortable with online shopping. They are flexible in their buying habits depending on their needs, and over time, it might not be easy to get them to spend in brick-and-mortar stores, especially for replenishment, without additional retail-tainment. There is a burning need to overhaul the retail game globally; no exceptions for Southeast Asia and India. How brands manage their retail footprint now needs a paradigm shift.

Brick-and-mortar will never be obsolete for luxury beauty. Even with a growing proportion of the population being digitally savvy, Euromonitor research indicates that more than 85 percent of current luxury beauty sales still come from offline channels. We estimate a steady-state share of online sales of 15 to 50 percent depending on the category. Hence, luxury beauty brands must invest and enhance their brick-and-mortar offering to be full-service branding hubs.

As consumers become channel-agnostic, brands will need to use retail not just as a revenue driver, but also as an anchor of their relationship with consumers.

Forward-thinking companies will keep the following topics in mind: brand discovery through recruitment of new consumers to feed into the omnichannel direct-to-consumer network, brand expression through compelling visual merchandising, and brand experience through a unique store design, Instagram-able spaces, and integrated augmented reality (AR) and virtual reality (VR).

That being said, companies will need to differentiate the extent of brand representation and storytelling across touchpoints, find the right mix of retail channels for their context, and determine how much to invest in each for an economically viable business. The key questions are which ones, how many touchpoints, and how much brand representation across the following areas:

— Own boutiques or standalone stores

— Experience-focused pop-ups

— Department store shop-in-shops and counters

— Beauty omni-chain stores, such as Eve & Boy, Sasa, Sephora, and Watsons (in select markets)[4]

— Luxury niche omni-retail concepts, such as the retail chain escentials

The boundaries between channels are also blurring. For example, we have seen immersive AR and VR in hyper-realistic makeup applications with social sharing and the ability to purchase seamlessly. One example is Sephora's proprietary Color IQ tool, which captures consumers' skin shade and skin type to recommend the right foundation, concealer, or makeup.

Combining the digital sphere with the physical space, escentials has launched virtual stores mirroring its Paragon and TANGS Plaza boutiques in Singapore—showcasing walkthroughs of its physical boutiques in three-dimensional visualizations and enabling consumers to discover the assortment of beauty products in phygital retail and then buy them online.

We are also seeing brands integrating digital elements into their physical experience, including gamification, brand heritage tours, and the brand's sustainability narrative. Through sustainability-linked perks such as rebates for every bottle brought back for recycling, environmentally conscious consumers are made to feel meaningfully engaged.

2. Harness continued e-commerce growth unique to each market

Although the real magic of luxury beauty lies in its tactile, sensory, and experiential nature, a full-bodied e-commerce footprint and online brand representation are now prerequisites. This is a sharp contrast to before the pandemic, when luxury beauty brands were more skeptical about the benefits of e-commerce. Despite a rebalancing of consumer spending in favor of brick-and-mortar in 2023, strong growth in luxury beauty e-commerce sales is estimated to continue at 15.6 percent CAGR from 2022 to 2026.

Southeast Asia has traditionally been an online marketplace economy and not a brand.com play, given the fragmentation in terms of geography and consumers. This has driven the preponderance of multi-brand, multi-category, and multi-country marketplaces.

[4] With an underdeveloped beauty omni-chain store channel in the Philippines, Watsons has mitigated the channel gap by premiumizing the beauty shopping experience in the typical drugstore set-up.

E-commerce marketplaces now have verified brand e-stores that enable luxury beauty brands to stake their claim in the online space. Gone are the days of undifferentiated product listings and mass discounting events that dilute brand equity—the antithesis of luxury beauty. Today, marketplaces such as Lazada and Shopee have LazMall and Shopee Mall, on which brands have certified “mono-brand-like” stores that carry the endorsement of authenticity. These efforts also deter counterfeit products and parallel imports. Marketplaces also elevate the luxury online shopping experience with their carefully curated luxury sub-segment, such as LazMall Prestige, Nykaa Luxe, Shopee Premium, TataCLiQ Luxury, and Zalora Luxury.

Mono-brand sites (brand.com sites) are not economical to operate across multiple sub-scale markets because it entails having an end-to-end business setup—from online strategy, performance marketing, and site operations to fulfilment, customer service, and managing returns. If it is a global brand imperative, alternative methods through partnerships could be considered (covered in imperative #6 later in this section). That said, looking five to seven years ahead, it will become more cost-effective to build direct-to-consumer capabilities as digital and physical infrastructure rapidly mature in Southeast Asia and India. As such, we could see more mono-brand sites in the coming years. Local execution remains key (for example, specific sites such as .com.sg, .com.my, .com.th, and .com.vn).

In addition, the difference between retail and e-commerce blurs when channel partners such as department stores and chain stores, for example Rustans, Sasa, Sephora, and Takashimaya, form their online presence (what this paper calls retailer.com). This provides brands with yet another route to the consumer. Such are the industry’s attempts to harness the potential of e-commerce in Southeast Asia and India.

While color and skincare have flourished online, fragrance e-commerce remains challenging, especially in Southeast Asia, except for niche fragrances, which has seen very strong e-commerce growth. There is no panacea for fragrance online selling; sampling and gifting strategies have to be tested extensively to find the sweet spot to attract consumers, both by brand and by SKU.

3. Forge capabilities to ride social commerce acceleration

Luxury beauty has traditionally thrived on exclusivity, but in today’s digitally connected age, social media association with aspirational individuals or communities is a driving force. Social media opens the door for impulse buying—see it, like it, buy now—crossing from brand awareness to purchasing on the spot. Social commerce, a subset of online commerce, involves using social media, and even conversational platforms, to build brand awareness and sell to consumers.

Social commerce, in the form of live streaming, first took off in China and has gained rapid traction in SEA and India. Now, all primary online marketplaces host live streams to drive peak sales by the hour. Brands have to work with these online marketplaces on the operational aspects of the live stream and engage influencers to amplify the reach and receptivity of the live-selling session. Many companies, including Estée Lauder, L’Oréal, and LUXASIA, have invested in live-streaming competencies, such as their own on-site content creation studios, influencer-related programs, and exclusive clubs of content creators. Influencer and content curation are deeply local efforts that require the expertise of in-market talents. Content is key, positioning matters, and cultural nuances cannot be ignored. Different influencers reach different consumers; selecting the right influencers will have a multiplier effect, while inappropriate influencers will dilute or even destroy a brand.

In addition to online marketplaces, there is also an emergence of platforms that provide a seamless point of conversion that will accelerate the trend toward social commerce. TikTok has taken the lead by introducing TikTok Shop in SEA, followed by Instagram with Instagram Shops. It is worth noting that although Instagram Shops is not yet available in many parts of Asia, Instagram has functionalities that enable online shopping right through to checkout. Conversational commerce on Facebook Messenger and LINE is another form of social commerce. Many beauty brands have already started experimenting in this area.

We believe social commerce has the potential to be rapidly adopted in Southeast Asia and India. Just like going to a physical luxury beauty store and asking the ambassadors “How does this product look on me?” only to be satisfied by their nods of approval, social commerce fills the innate human desire for validation via likes, comments, and engagements.

Most recently, top-tier luxury brands have experimented with the metaverse and multiple Web3 constructs to create community-driven social commerce applications: YSL Beauty on token-gated web pages, Clinique, Givenchy Beauty, Guerlain, and MAC launching their non-fungible token (NFT) collections. The metaverse is in its beta stages, and the infrastructure is still immature. Nevertheless, this would create new opportunities to engage consumers—for example, with virtual experiences, member-owned communities, and token-gated experiences. It's a space to watch closely. This space will be dominated by global initiatives in the short and mid term.

New generative AI technologies such as Bard, ChatGPT, DALL-E, and others are also likely to play a vital role in social commerce. With the potential for automated content creation, generative AI will become more helpful across product recommendation (analysis of user data to generate hyper-personalized recommendations), brand messaging and advertising (content creation, ads, copywriting, social media posts via specialised text-to-image, image-to-text, text-to-text, and image-to-image tools, virtual influencers, search engine optimization keywords generation), and customer service (conversations with chat assistants). Going forward, we expect to see even more use cases as these generative AI technologies get trained on enterprise data and are integrated through APIs across a variety of applications, such as plug-ins to Outlook, as well as other conversational and social media platforms and WhatsApp. Using these technologies well in the local social commerce contexts in each country can help brands differentiate themselves in the market.

4. Build deep local consumer understanding through data aggregation and analytics

Personalization at the consumer level to drive engagement, purchases, and loyalty is essential. There are a few prerequisites:

— **Quality customer data,** such as personally identifiable information (PII), through consistent collection efforts enabled by a competent workforce

— **A solid customer relationship management (CRM) system** that can analyze and enable consumer marketing—given the cost and efforts required to run CRM systems begs the question whether to invest significantly into one's own systems in each geography or work with partners that can drive the same results through their existing system

— **Well-trained talents** in brand management and consumer marketing who are able to distill insights and tweak marketing mechanics to create iteratively better campaigns

— **Dedicated teams** with specialized skills to execute and benchmark campaigns across the region, understand emerging strategies, maximize investment, and increase productivity by sharing best practices

— **Close links with the local Meta and Google teams** through managed client status to understand the country nuances (a difficult status to achieve; only 2 percent of Meta's global customers have it)

Best-in-class retailers have already built their data infrastructure and have been relentlessly collecting data. Most will resist additional data capture efforts from new players, allowing only the early adopters that have demonstrated the value of their CRM to the stores. For established players, consumers are willing to share data with assurances of data security, privacy, and value, especially if local execution and personalization are observable. Consumers tend not to provide data to companies that are not associated with the region. Through the tracking and linking of demographic, purchase, store, channel, employee, engagement, and product information, early adopters by now would have accumulated many years' worth of detailed consumer insights.

Combining demographic segmentation, country and cultural expertise, and language capabilities can help brands develop a deep understanding of the purchasing considerations and overall journey (in other words, how consumers respond to marketing, what they buy, and how they buy). Best-in-class use these insights to hyper-personalize by channel, product consumption life cycle, and brand to reduce the number of days between purchases while increasing order value and repeat rates. As a result, the impact on sales is significant at about a 5 to 15 percent revenue increase.[5]

[5] Algonomy, *Adweek*, *Harvard Business Review*

Companies should target consumers based on their demographic and transactional histories. Here are a few examples:

— Singapore has one of the highest proportions of Gen X customers. Older Millennials are increasing quickly and are expected to become the dominant demographic group within the next few years. Younger Millennials and Zoomers continue to grow.

— In Malaysia, Gen X and older Millennials are now balanced in their activities. Older Millennials will soon overtake Gen X as the dominant group. The growth of younger Millennials and Zoomers is slower than in Singapore because of disparity in relative affluence of the segments.

— By contrast, the Philippines has very active older Millennials as they respond to social media content but little Zoomer integration because of generally lower affluence.

— Personalized delivery of the right content at the right stage of the customer journey can increase engagements rates by about 25 percent, depending on the country.

— Customers of niche fragrances repeat purchases up to 30 to 50 percent more than those who purchase commercial perfumes. They also repurchase up to 25 percent faster when they receive personalized messages. Niche fragrance customers are especially delighted by newness and limited editions and are prolific buyers of other categories, especially skincare and haircare.

5. Leverage logistics partners to build a robust and flexible network

In today's macroeconomic context of geopolitical tensions and protectionism, the main objective of the supply chain is simple: balancing speed to market, quality, capacity flex, and costs across five components: regulatory management, including product registration; freight, including customs clearance, import duties and taxes; fulfillment (both business-to-business and e-commerce logistics); last-mile delivery, and returns management. This requires full-time local regulatory and supply chain teams, close collaboration between sales and channel management, brand management, demand-planning teams, and external market intelligence for omnichannel demand planning.

Local partners without regional scale are unlikely to have sufficient funds, expertise, or technology systems to manage an omnichannel distribution network. It is therefore vital to identify partners adept in navigating the complex supply chain ecosystem. What every brand needs is either to invest in teams to maintain their extensive network of trusted solution providers, vendors, and logistics partners in each market or to form partnerships with brand-builders with a stress-tested and comprehensive network of such partners.

6. Win with the right omnichannel brand-building partners

The value of doing it by oneself is the gradual accumulation and understanding of market knowledge and complete control of brand presence, management, and operations in the market. However, this is difficult for most organizations given the sub-scale operating context, the finite management attention, workforce limitations, and resource scarcity across the very diverse markets of Southeast Asia and India.

Partnering with a company that can bring out the brand's strengths as an enabler (in other words, not just a mere distributor or importer) will bring success faster than building from scratch. The company should be able to tap into deep market expertise to deliver a strong and efficient commerce engine so that the brand can focus on expressing its own brand promise to customers. To succeed, a local partner will need to work with the brand in an integrated and fully transparent manner to plan, iterate, and execute the strategy.

There are a few options for creating winning partnerships:

Sign on a distribution partner. Collaborate with a local partner that handles all in-market operations in alignment with the brand.

Use a service agent model. This entails granular slicing-and-dicing and assigning of responsibilities. For example, some brands might take ownership of the advertising and promotion spending in the market, defining the strategy minutely, and then handing it over to the enablement partner to execute. Others might bring their public relations and marketing agencies in and ask the enablement partner to handle channel relationships and logistics.

Explore integrated models. Models such as joint ventures and multi-shareholder companies can help brands work more transparently with local partners, supported by the legal construct. These models give the brand confidence to invest more strongly to build its presence in the initial years so that it can reap the rewards once the foundation has been established. This approach provides enhanced benefits:

— Greater oversight and participation in brand-building in individual markets, with a regional joint venture team

— Tax-efficient structure with intra-company transfer pricing, allowing greater in-market investments in advertising and promotion

— Cost-effective local structure, using shared services from the joint venture partner

— Right to consolidate in-market revenue, boosting the top line (assuming that the brand is the majority shareholder)

Set up your own subsidiary. This approach might make sense for larger markets such as China, Japan, or South Korea, but SEA and India are sub-scale markets and are far too fragmented for most brands to establish local subsidiaries.

Most brands end up with a mixed portfolio of operating models. Brands can choose between having unique partners for each market, a single partner for the entire region, or a mix of unique partners and regional partners. Key considerations include the partners' capabilities and the complexity of partner management (in other words, the more partners, the more challenging to manage). In most cases, regional partners tend to have significant synergies, including economies of scale in overheads, the ability to invest profits from mature markets into still-growing ones, and tracking the diversity of consumer preferences across markets.

For online commerce, end-to-end enablement partners such as aCommerce, Baozun, and LEAP Commerce enables brands to own and operate marketplace brand stores and full-fledged brand.com sites with reduced investments into technology and infrastructure. Such enablers could either provide the full suite of solutions or a mix-and-match of services that span online commerce strategies, performance marketing, site operations, campaign and traffic management, supply chain, customer service, and returns management.

There is no one-size-fits-all approach, and hence, it is important that brands explore a mix of operating models or partnership modes by market. Some luxury brands—including those in the broader luxury lifestyle space—have enjoyed material success by working with local partners on an omnichannel market entry where the parties complement the others. Emerging from the pandemic, such partnership models are set to skyrocket in Southeast Asia's and India's luxury beauty sector as a lower-risk go-to-market approach without sacrificing brand resonance and commercial performance.

Conclusion

Southeast Asia and India are the next gold rush in luxury beauty as significant growth is expected, and the costs of entering and expanding in these markets are not as prohibitive as other mature Asian markets. Although the challenges are significant in this fragmented region, with no one-size-fits-all approach, now is the time for forward-thinking brands to capture this unique growth opportunity by focusing on these six imperatives to define a clear and implementable brand strategy for Southeast Asia and India market success.

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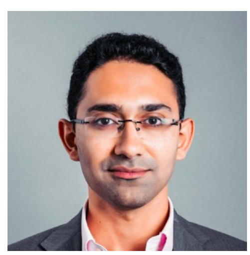

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About LUXASIA

LUXASIA is the leading beauty omnichannel brand-builder of Asia Pacific. Since 1986, it has successfully enabled market entry and brand growth for more than 100 luxury beauty brands, the likes of Albion, Aveda, Bvlgari, Calvin Klein, Creed, Diptyque, Hermes, La Prairie, Maison Francis Kurkdjian, Montblanc, Paco Rabanne, Salvatore Ferragamo, and SK-II. LUXASIA has established joint ventures with the likes of LVMH Group, Revlon (for Elizabeth Arden), Puig, Shiseido, and Orveon (for Laura Mercier). The Group's integrated brand-building capabilities include luxury retail, online commerce, consumer marketing and analytics, and supply chain management. LUXASIA is powered by a diverse and dynamic #OneTeam of 2,700 talents across a growing footprint of 15 markets.

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