THE WAYS TOWARD SUSTAINABILITY OF KOREAN COSMETIC INDUSTRY

Foundation of Korea Cosmetic Industry Institute
Global Market Research Team
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- With “Hanbang” Cosmetics
Contents

Companies

Consumer

Unique Effort: Hanbang cosmetics
Korean Cosmetic Market (‘10)

- Market size: 5.4 Billion EURO
- Annual Growth Rate(‘05~’10): 6.7%
- World Ranking(Size): 12th
- Asia Ranking(Size): 3rd
- Cosmetics Manufacturers: More than 700 companies

1) www.Euromonitor.com
2) Korea Cosmetic Association
Organic cosmetics in Korean Market

- Guide line for labeling and advertisement of organic cosmetics (KFDA):¹
  - No more than 5% of synthetic ingredients
  - More than 95% of natural origin ingredients
  - More than 10% of organic ingredients
  - More than 70% of organic ingredients exclude sodium and water

¹ www.kfda.ro.kr

Act 2010 Jan 01
01. Consumer Trends: Sustainable Cosmetic

- Emerging “Natural, Organic Cosmetics”

  - Organic Cosmetics in media¹)
    - 1st appearance: 1994, Pulmuwon (Food Company)
    - Boomed-up: Since 1997, Aveda Launching

  - Natural Cosmetics in media¹)
    - 1st appearance: 1961, Cosmetic Commercial (Face Powder)
    - Boomed-up: Since 1975 (Cosmetic ingredients from Ginseng)

¹) www.newslibrary.naver.com
01. Consumer Trends: Sustainable Cosmetic

- Consumer attitude toward Organic cosmetics

  **Have you heard about Organic cosmetics?**

  - Yes: 91%
  - No: 9%

1) Hyun-Young Lee, A study on consumer’s Awareness and Satisfaction with Organic Cosmetics, 2011
   Jung-Min Yeo, A Study on Customer’s Recognitions and The Way of Purchasing for Organic Cosmetics
01. Consumer Trends: Sustainable Cosmetic

- Consumer attitude toward Organic cosmetics

Experience of Organic Cosmetics

- Yes 50%
- No 50%
01. Consumer Trends: Sustainable Cosmetic

- Consumer attitude toward Organic cosmetics

**Merits of Organic Cosmetics**

- Safety (Without or less chemicals): 46%
- Nature origin ingredients: 31%
- More safe than normal cosmetics: 15%
- Clearer skin: 5%
- Certificate body: 3%
01. Consumer Trends: Sustainable Cosmetic

- Consumer attitude toward Organic cosmetics

Reliability of organic cosmetics

- Not reliable: 46%
- Reliable: 54%
01. Consumer Trends: Sustainable Cosmetic

- Consumer attitude toward Organic cosmetics

Valuation basis of organic cosmetics

- Product Descriptions: 60%
- Advertisement: 16%
- Sales Person: 13%
- Acquaintance: 7%
- Professional Information: 4%
01. Consumer Trends: Sustainable Cosmetic

- Consumers attitude toward Organic cosmetics

Purchase motivation of organic cosmetics:

- Acquaintance: 35%
- Confidence in products: 11%
- Troubled/Sensitive skin: 10%
- Advertisement: 9%
- Professional information: 7%
- Others: 5%
- Sales person: 23%
01. Consumer Trends: Sustainable Cosmetic

- Consumers' attitude toward Organic cosmetics

Priority consideration of purchasing Organic Cosmetics

- Organic Certification: 37%
- Brand: 23%
- Ingredients: 21%
- Price: 16%
- Manufacturer: 3%
01. Consumer Trends: Sustainable Cosmetic

- Consumers' attitude toward Natural/Organic cosmetics

Growing Potential of Organic cosmetics

Importance of Safety
- 2009 Awareness
- 1990s

Present
02. Efforts of Industry and Companies

- Industrial Trends

- R&D
- 7 Free
- Reduce Packaging
- Social Contribution
- Refill
02. Efforts of Industry and Companies

- **Able C&C**
  - World Ranking (Size)\(^1\): 70\(^{th}\)
  - Established in 2000
  - Sales: 243 billion won (2010)

2. Annual IR Report of Able C&C
02. Efforts of Industry and Companies

- ABLE C&C’s action for sustainability
  - Hanbang cosmetics
    - Native Ingredients (Korean Ginseng Water)
  - MOU with Unicef
    - Unicef Items
    - Benefit Donation on World Humanitarian Day
  - Natural, Eco-friendly Products
02. Efforts of Industry and Companies

- ABLE C&C’s Natural Cosmetics

Efforts of Industry and Companies in Natural Cosmetics Industry

ABLE C&C’s Natural Cosmetics

More than Nature

- Pure South Pacific
- APIEU Eco Fresh Lagoon Energy
- Mild Formula

- 95% Nature
- 95% Less Harm
- 95% Less Harm

- 7-Free Natural Formula

- 100% from well-managed forests

Eco Fresh Lagoon Energy

Hydro Essence

95% Nature

- 95% Less Harm
- 95% Less Harm

- 7-Free Natural Formula

- 100% from well-managed forests
02. Efforts of Industry and Companies

- LG Household & Health Care
  - World Ranking (Size)\(^1\): 31\(^{st}\)
  - Established in 1947
  - Sales: 2,827 billion won (2010)

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1) [www.wwd.com/beauty](http://www.wwd.com/beauty) : WWD Beauty Biz Top 100 (2011)
2) Annual Sustainability Report, 2010
02. Efforts of Industry and Companies

- LG Household & Health Care’s action for sustainability

**Product Leadership**
- Establishing infrastructure & Expanding Sustainable Product Development
- Guideline for Developing Sustainable Products
- Operating Open Innovation by i-CONNECT

**Operational Leadership**
- Eco-friendly Plastic Bottle Art Exhibition for Eco-conscious
- Saving and Recycling of Resources (Refill Container & Minimizing Package)
- Eco-friendly manufacturing and Logistics (The Face Shop’s Backhauling System)

**Social Responsibility Leadership**
- Contribution for Women and Children & Youths who are main customers.
- Happy “N” Campaign
- Hair Donation Campaign of Hanbang Shampoo (ReEn)
- LG H&H Youth Orchestra Academy

**Communication Leadership**
- Operating VOC (The Voices of Customers) Management System
- Faculty cap of Powder Sunblock was replaced as Easy Capping Structure for creams.
- The gap around external border of toothpaste cap was removed.
02. Efforts of Industry and Companies

- LG H&H’s effort for sustainability
  - Brand Identity: Eco Beauty for Mother Nature and Human
  - Success in developing a technology to stabilize organic cosmetics from Korean traditional food, Kimchi.
LG H&H’s effort for sustainability

Launched “Belif”, a natural herbal cosmetic brand in 2010

- Natural ingredients using traditional herbal method, rational price, simple packaging

Entered into UK market

Factors to improve sustainability

- Skin is protected safely because products have few harmful and irritating ingredients such as synthetic preservatives, colorants, flavors, mineral oil, and animal ingredients.
- Simplification of packaging enhances recycling and reduces environmental loads.
- Instead of dual quality material, single quality material is used, removing unnecessary coatings and decorations.
- *Biomass Plastic*, an eco-friendly material, will be a component of packaging in the first half of 2011.
- Botanic ingredients will help to generate less CO2 emissions during manufacturing processes compared to petroleum-based raw material (plastic).

* Biomass Plastics: Plastics containing more than 25% Biomass which originates from worksites such as corn starch, etc.
02. Efforts of Industry and Companies

- **Amore Pacific**
  - **World Ranking (Size)**: 16th
  - Established in 1945
  - **Sales**: 2,057 billion won (2010)

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1) www.wwd.com/beauty: WWD Beauty Biz Top 100 (2011)
2) Annual sustainability report, 2011
02. Efforts of Industry and Companies

- **Amore Pacific’s action for sustainability**
  - Social Contribution
    - Pink Ribbon Campaign
    - Make Up Your Life Campaign (cancer patients)
    - Supporting women scientists
  - Reduce Greenhouse Gases in the Manufacturing Process
    - Upgrade Manufacturing system for energy efficiency
    - ”Echo-Driving” Delivery
  - Earth Friendly Products
    - Ecocert, Carbon Footprint Labeling certification
    - Korea Eco-label from the Korea Environmental Industry & Technology Institute
And R&D Investment
02. Efforts of Industry and Companies

- **Amore Pacific R&D Investment**

  | New Research Papers by Year (Unit: Cases) |  |  |
  |  | 2008 | 2009 | 2010 |
  | No. of research papers | 54 | 48 | 57 |

  | New Patents by Year (Unit: Cases) |  |  |
  |  | 2008 | 2009 | 2010 |
  | Domestic Pending | 242 | 229 | 250 |
  | Domestic Registered | 95 | 47 | 52 |
  | Overseas Pending | 45 | 77 | 97 |
  | Overseas Registered | 11 | 16 | 16 |

  | R&D Investment Outlays (Unit: KRW in millions, %) |  |  |
  |  | 2008 | 2009 | 2010 |
  | R&D Expenditures | 53,704 | 56,209 | 64,530 |
  | Percentage of Sales | 3.51 | 3.18 | 3.13 |

1) Annual sustainability report, 2011
02. Efforts of Industry and Companies

- Amore Pacific’s Innovative Products ¹)

Development of Innovative Products

Ryoe Jayangyunmo Shampoo & Ryoe Hwayunsaeng Shampoo

Going back to the traditional Korean medical text known as Dongui Bogam, AMOREPACIFIC’s researchers became interested in studying the properties of the biota seed. It has been used historically to strengthen hair roots and maintain the health of the scalp, thereby helping to prevent hair loss, which is an increasing problem due to the stress and pollution levels encountered in modern society. Our researchers applied eco-friendly herbal material technologies to develop a modern hair-loss preventive therapy based on biota seed, and received KFDA approval for it. The product’s efficacy was further proven by the awarding of the Silver Medal at the 2010 Korea Technology Awards from the Ministry of Knowledge Economy.

IOPE Whitegen Ampoule Essence

Whitegen is a pure essence product that makes skin bright and translucent by controlling levels of black melanin, red hemoglobin and yellow pigments within the skin. We developed and applied the Spot White Capsule™, which treats various factors inside the skin that cause spots to create a uniform skin tone, and the Skinchroma Complex™, which treats black pigments (melanin), red pigments (hemoglobin), and yellow pigments (oxidative stress), to create a bright complexion. This product line is appreciated for its ability to reduce the tone of naturally dark skin and whiten the skin of women with naturally reddish and yellowish tones.

¹) Annual sustainability report, 2011
Hanbang Cosmetics
What is “HANBANG” (Korea Traditional Herbal Medicine)

- Effective treatment with THM is mostly based on formula composed of several or more herbs

- Formulation Principles of Oriental Medicine. In general, THM contains 4 different classes of herbs, principal herb for key active compounds, associate, adjuvant, and messenger herbs.

- This combination increases the therapeutic effectiveness while reducing side effects and increasing the solubility etc.

- Hanbang cosmetics in Korea have been developed over the last 30 ~ 40 years of research by applying the old wisdom of KTM that have been traditionally passed down in a historical record Donguibogam.
Donguibogam: Principles and Practices of Eastern Medicine

The Dongui Bogam (동의보감) is a Korean medical book compiled by the royal physician, Heo Jun (1546 – 1615) and was first published in 1613 during the Joseon Dynasty of Korea. The title literally means “Mirror of Eastern Medicine”. The book is regarded important in traditional Korean medicine and one of the classics of Oriental medicine today. As of July 2009, it is on UNESCO’s Memory of the World Register. (WIKIPEDIA)

Bogam is the summation of the medical documents written until the end of the 16th century in East Asia. Bogam cites 120 medical books including 86 that are mentioned in the section of Yeokdae-ui bang (List of Historic Medical Books).

Bogam was reprinted over 30 times in China and twice in Japan to be widely used for the cure of diseases and the education of physicians in this part of the world for the last four centuries.

Bogam is the world’s first medical compilation that recognized on a full scale the importance of prevention in medicine based upon the “Yangsaeng (life-breeding)" principle.
Hanbang Cosmetics: Definition

“Cosmetic products scientifically formulated with multiple herbs naturally obtained based on the old wisdom of traditional oriental herbal medicine to ensure synergistic efficacy and safety that help improve skin conditions”

From a report of KHIDI, 2010

A revision of the definition of ‘Hanbang’ cosmetics is being made.

Korean’s distinguished way to achieve sustainability in cosmetic industry
03. Hanbang Cosmetics

- Hanbang Cosmetics in Korea

  - Sulhwasoo (Amore pacific)
  - Vichigain (Coreana)
  - Miindo (THE FACE SHOP)
  - The history of Whoo (LG)
  - Sansim (Hankook cosmetics)
  - Soonbeakmiin (SAENGREEN)
## World Market Size of ‘Hanbang’ Cosmetics (2007)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cosmetic Market (Total)</th>
<th>Hanbang Cosmetic Market</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>61,844</td>
<td>9,895</td>
<td>16%</td>
</tr>
<tr>
<td>Japan</td>
<td>38,3140</td>
<td>19,157</td>
<td>5%</td>
</tr>
<tr>
<td>China</td>
<td>172,750</td>
<td>8,638</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>37,690</td>
<td>1.5% of world cosmetic market</td>
<td></td>
</tr>
</tbody>
</table>

Source: Euromonitor
03. Hanbang Cosmetics

Sales of Major ‘Hanbang’ Cosmetics (2009)

<table>
<thead>
<tr>
<th>Brand</th>
<th>Sales (mil. $)</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sulwhasoo</td>
<td>580</td>
<td>Amorepacific</td>
</tr>
<tr>
<td>Whoo</td>
<td>174</td>
<td>LG</td>
</tr>
<tr>
<td>Sooryehan</td>
<td>126</td>
<td>LG</td>
</tr>
<tr>
<td>Hannule</td>
<td>47</td>
<td>Amorepacific</td>
</tr>
<tr>
<td>Danahan</td>
<td>20</td>
<td>Somang</td>
</tr>
</tbody>
</table>

Source: Korea Cosmetic Association
Exchange rate: 1000won/USD
# Differences between ‘Hanbang’ and Conventional Cosmetics

<table>
<thead>
<tr>
<th></th>
<th>‘Hanbang’ Cosmetics</th>
<th>Conventional Cosmetics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Theoretical Base</strong></td>
<td>Oriental Traditional Herbal Medicine and Dermatology</td>
<td>Modern Biotechnology and Dermatology</td>
</tr>
<tr>
<td><strong>Key Active Ingredients</strong></td>
<td>Formulas from Old Wisdom with Multiple Medicinal Herbs</td>
<td>Natural and Synthetic Chemicals</td>
</tr>
<tr>
<td><strong>Key Process for Ingredient</strong></td>
<td>Hot Water Extraction</td>
<td>Solvent Extraction and Synthetic Process</td>
</tr>
<tr>
<td><strong>Efficacy Test</strong></td>
<td>Involves Multiple Components <em>in vitro, in vivo test</em></td>
<td>Single Signature Component <em>In vitro, in vivo test</em></td>
</tr>
<tr>
<td><strong>Research Direction</strong></td>
<td>Correlation between the Theories of Traditional herbal Medicine and Dermatological Findings</td>
<td>Modern Skin Biology &amp; Dermatology</td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>Mainly Skin Care Products</td>
<td>All Products</td>
</tr>
<tr>
<td><strong>Mechanisms</strong></td>
<td>Help restore skin’s self rejuvenation and homeostatic capability by keeping the balance of our body system</td>
<td>Discrete targets of each part of skin or biomarkers</td>
</tr>
</tbody>
</table>
Foundation of Korea Cosmetic Industry Institute
04. What do we do?

- Safety Research & QC Test Division
  - Safety evaluation of cosmetics ingredients
  - Cosmetic Ingredient Review Committee and working group

- Planning and Information Coordinating Division
  - Global Market Research
  - Market and Trends Reports

- National Coordinating center for Global Cosmetics
  - Supporting development of innovative cosmetics
  - Researching the alternative resource for cosmetics
Sustainability In Cosmetics;

Going Beautifully, Together

Thank you