COSMETICS MARKET RESEARCH

Market overview

The cosmetics sector in Vietnam is in the early stages of development. Presently, the sale of cosmetics and beauty products is largely uncontrolled and is plagued by a wide range of fake, mislabeled, and smuggled products. The Vietnamese cosmetics market is, therefore, highly price sensitive and full of cheap knock-offs, both of which are potential hurdles for international cosmetic giants who may wish to enter the market but who usually offer their products at premium prices. Premium price and luxurious atmosphere cosmetic retail venues like department stores, specialty stores, and certain hypermarkets and supermarkets are eye-catching destinations for window shopping, but not usually purchasing, for the average Vietnamese consumer of cosmetic and beauty products. 72% of all cosmetic purchases in 2003 occurred at street shops – small “mom-and-pop” retail outlets located in the front portions of storehouses along busy streets - and daily open-air neighborhood markets. Vietnamese consumers have to typically spend only about VND45,000 (about $3) for cosmetics purchases made at street shops and neighborhood markets while they would have to spend at least about VND100,000 (about $6.5) – more than two times higher - in specialty cosmetic stores, department stores, and supermarkets for similar beauty products.

Vietnamese consumers spend an estimated US$35 million per year on beauty and skin care products, excluding illegal and unofficial imports that constitute about 60 to 65 per cent of the products sold in the Vietnamese market. Currently, Vietnamese spend only about $3-4 per capita on cosmetics and beauty products per year, a figure that is quite low compared with other Asian countries, such as Korea ($40.9), Taiwan ($41.7), Hong Kong ($35.7), China ($10), and Thailand ($19.5).

Consumer desires and tastes for more sophisticated and elaborate products are maturing and preferences are shifting towards prestigious and quality brand names, especially among younger consumers. Foreign companies who already have a presence in Vietnam recognize the market’s future potential and their subsequent push to increase sales through more advertising is making market competition even fiercer. Local manufacturers are also working hard to gain a larger market share by investing in more research, development, and marketing and distribution activities to improve their products, which are currently inferior to those of international brands. This growing and rapidly developing market offers numerous opportunities for American companies considering not only the sale and distribution of finished beauty products in Vietnam but also, as a result of the intense efforts of Vietnamese cosmetics producers to successfully compete with the influx of foreign brands, those considering the supply of cosmetics raw materials and the export of cosmetics and beauty product manufacturing technology and related equipment.

Market size

The bulk of the market (90-95%) for international cosmetics products in Vietnam is centered in the most cosmopolitan areas of the country, Ho Chi Minh City in the South and Hanoi in the North. Relatively few sales of international cosmetics occur outside of these cities. The cosmetics market in Ho Chi Minh City is about five times larger than the market in Hanoi.
Market size for skin care and make-up products:

<table>
<thead>
<tr>
<th></th>
<th>2003 (US$ million)</th>
<th>2004 (US$ million)</th>
<th>2005 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>41.8</td>
<td>56.2</td>
<td>65.8</td>
</tr>
<tr>
<td>Local Production</td>
<td>3.2</td>
<td>3.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Exports</td>
<td>0</td>
<td>0</td>
<td>1%</td>
</tr>
<tr>
<td>Total Market</td>
<td>45.0</td>
<td>60.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Imports from the USA</td>
<td>3.5</td>
<td>5.6</td>
<td>6.6</td>
</tr>
</tbody>
</table>

Note: The above statistics are unofficial estimates

Vietnamese consumers are still not as familiar with American branded cosmetics as they are with cosmetics from other foreign countries. Additionally, local production of branded and unbranded cosmetic products is quite low compared to the level of imported beauty products. The 2004 Vietnamese market share of cosmetics products sourced from foreign nations is as follows: Korea - 30%, Japan - 17%, EU - 23%, US - 10%, Thailand - 13%, and Others - 7%

Best prospects

There are hundreds of locally produced brands and other low prestige cosmetics labels from China and Thailand, targeted towards the mass of low-income consumers, circulating in the market. Foreign make-up and skin care products are steadily gaining in popularity among Vietnamese consumers. A wide variety of international brands are sold in Vietnam, including: Revlon, Maybelline, Avon, Clinique, Estee Lauder, M.A.C., Lander and Aramis of the United States; Make up Forever, Christian Breton, Orlane, Lancome, L’Oreal, Clarins, and Roger Gallois of France; Kiss Me, Kanebo, Kosé, and Shiseido from Japan; Debon, Coreana, and Amore from Korea; Cliven of Italy; and Oriflame of Sweden; among others. A few international companies have opened representative offices in Vietnam to oversee the distribution of their products or have appointed exclusive domestic agents to handle these and other related functions. These include DeBon, Coreana, Maybelline, Clinique, L'Oreal, Kanebo, Kosé, Shiseido and Oriflame.

In 2004 sales of skin care products in Vietnam grew strongly by 27% in current value terms. This enormous single-year growth is due to the introduction of new foreign brand name products into Vietnam and heavy TV advertisement of locally-produced skin care products, which have combined to encourage Vietnamese to buy more skin care products. The greater availability and advertisement of skin care products in Vietnam has been further complemented by a marked increase in the awareness of over-the-counter skin protection and epidermal treatment products by increasingly appearance-conscious Vietnamese social and fashion elites. Sales of skin care products are, however, expected to taper off and grow at around 10-15% annually over the next three years, as this previously untapped market segment becomes increasingly cluttered with more and more foreign and domestic brands. While Vietnamese consumers still prefer skin care products from Europe and Japan, industry experts estimate that over 65% of the market for skin care products is still comprised of sales of locally produced products. Major local manufacturers of skin care products include LG Vina (a joint venture between the Korean conglomerate Lucky
Group and a Vietnamese company Vocarimex), Lan Hao Cosmetics (a.k.a. Thorakao Cosmetics), as well as foreign companies such as Unilever, Procter & Gamble, and Avon.

Smuggling is increasingly responsible for the massive influx of low-cost, and oftentimes fake, internationally produced skin care products into Vietnam. Today, 85-90% of the foreign-made products sold in Vietnam are smuggled in, making it very difficult for the initial foreign manufacturers or their Vietnamese agents to effectively compete in the highly price sensitive cosmetics and beauty products market.

The Vietnamese market for make-up products has rapidly developed and become highly segmented with the development, distribution, and market positioning of products being increasingly targeted to specific consumer segments delineated according to income level, age, sex, and even profession. This contrasts with the earlier one-type-fits-all product types that were ubiquitously present in the market less than a decade ago. Make-up products represented 12% of the total value of cosmetic and beauty product sales in 2004, and this figure is expected to grow by approximately 7% per year over the next three years, as make-up products from Korea and Japan have become fashionably attractive to Vietnamese consumers.

**U.S. Market Position**

U.S. cosmetics brands are generally well accepted by Vietnamese consumers. Brands such as Maybelline, Revlon, and Clinique have done well in the local market. Vietnamese consumers have not yet been exposed to many of the higher end brands, such as Estee Lauder and M.A.C. Given the still limited exposure of Vietnamese consumers to American brands, most local consumers are uncertain where U.S. products would rank on the prestige hierarchy of cosmetics and beauty products available in the local market. While several high-end American cosmetics brands are available in the local market as a result of smuggling, there is no advertising and promotional support yet available to further develop these American brands’ market shares or to further cultivate the awareness and loyalty of prospective local consumers to these already available American brands. In sum, the market potential for future sales of American cosmetics is very good, as brand awareness is growing and local consumers are spending increasing amounts on cosmetics and beauty products.

**Distribution Practices**

Once suitable local distribution partners have been identified and selected, an effective distribution strategy must be formulated and implemented. Three primary options exist:

1. Exclusive national distribution: Identifying and selecting a national distribution company to be the only licensed wholesaler in Vietnam.

2. Non-competing regional distribution: Identifying and selecting different distribution companies to be the only licensed wholesalers in each of the two primary local markets, Ho Chi Minh City and Hanoi.
3. Nationally tiered distribution: Identifying and selecting a primary national
distribution company to resell to secondary or regional wholesalers.

Since the Ho Chi Minh City cosmetics and beauty products market is much larger
than that in Hanoi, it is advisable to select a primary distribution company located in
Ho Chi Minh City. However, to serve the Hanoi market, a separate sales agent may
be required because of the different characteristics of that market.

Advertising and selling strategies:

In the early stages of market entry, it is advisable to have the primary Vietnamese
distribution company sell directly to local retailers in order to better control brand
image and visibility, quality assurance, product placement, and to observe the level of
commitment of the sales channel partners involved. This approach, while initially
limited, will better allow the foreign firm to gradually learn about market and ensure
sustainable success. Only once a foreign company has acquired a great deal of local
experience and/or greater brand notoriety would it become feasible for it to take steps
to loosen and expand its distribution channels in Vietnam. Market entry also requires
a corresponding national or regional advertising budget and certified local or
expatriate beauticians who can work with retailers to educate and train them about
particular product characteristics and advantages with an aim to promoting brand
sales.

The market remains crowded with products that are largely undifferentiated in
consumers’ minds and that fail to directly connect with consumers’ needs,
expectations, or personal philosophies. A long-term, consistent advertising program
that clearly highlights the brand and its products tends to be more effective than a
large, splashy advertising program that is discontinued several months after its
introduction. As the number of Vietnamese magazines and tabloids focusing on style,
fashion and the exploits of domestic and foreign celebrities has exploded in recent
years, advertising rates are very reasonable and long-term print media advertising
contracts offer great savings. Foreign companies should retain control of the
advertising program and corresponding payments to either print media advertising
buyers or directly to print media outlets.

While the more traditional approach of retailing cosmetics in outlets such as
department stores, supermarkets, and beauty shops via wholesalers is still
predominant, the direct sales approach for cosmetic products has strong growth
potential alongside the more established mass marketing techniques currently
employed in Vietnam. A foreign cosmetics company that wishes to utilize this
approach would need to select an appropriate import agent/distributor and
corresponding sales representatives, who would meet directly with local consumers to
demonstrate product features and arrange sales. Companies that want to enter the
market via this method should do so with a thoughtful long-term approach and will
need to be very careful to select an appropriate agent/distributor and salespersons with
knowledge of local consumer tastes and a large number of prospective client contacts.

Regulation & Taxation

Regulation:
Imported cosmetics and beauty products must be registered with the Ministry of Health (MOH) for quality assurance and identification purposes. The foreign party should have a contract with a local company that allows the foreign company to change the registration status of previously imported goods as well as any future imports to a different local distributor with appropriate notice if any problems should arise between the foreign exporter and the initial local distributor. This process of product registration is complex and often confusing to a foreign company. Local distributors are more familiar with the local requirements and for that reason can handle product registration easier and more efficiently. The MOH also typically requires foreign importers to provide it with three samples of each new product being imported in order to conduct required health and safety inspections.

The following items are classified as cosmetics that directly affect human health and welfare and are currently required to be registered for quality assurance purposes with the MOH for distribution and circulation within Vietnam: skin creams, lotions, foams and epidermal ointments; skin powders; shampoos and conditioners; hair dyes; and lipsticks, blushes, eyeliners, and mascaras.

Company Registration

There are no regulations requiring foreign companies to obtain registrations prior to exporting cosmetics to Vietnam.

Product Registration

For products that fall under the cosmetic categories specified above, the exporter or importer must register the product with the MOH for quality assurance purposes. A permit must be obtained from the MOH to import the initial samples required for the health and safety inspections and quality assurance registration. The quality assurance and identification registration is valid for two years and is renewable. The current governmental fee for these registrations is approximately US$150.

Import Regulations

In addition to the requirements of company registration with and product licensing by the MOH referred to above, imports of cosmetic products are subject to quantitative limits set by the MOH each year. All imports are also subject to duties and taxes.

Product Labeling

Vietnam enacted a product labeling regulation that went into effect on March 1, 2000. This regulation applies to all lots of products imported into Vietnam after March 1, 2000. While labeling can be in Vietnamese or English, the package insert must be in Vietnamese. The regulation also sets guidelines for both the compulsory and optional contents of product labels and package inserts.

Advertising

MOH approval is required for cosmetics marketing and advertising programs, and only licensed products may be advertised.
There are specific regulations concerning the publishing of information and advertising or marketing programs relating to the sale or use of cosmetics. Giving away promotional samples or providing financial or in-kind incentives in any form to influence a doctor or pharmacist or other health professional to prescribe, purchase, recommend the purchase of, or sell medical, dental, and other related cosmetic or health products is legally prohibited.

Resident Representative Office

If a manufacturer or exporter wishes to develop an initial foothold in the Vietnamese market to support the sale and distribution of its products, it may apply for a license to establish a resident representative office, most likely in either Hanoi or Ho Chi Minh City. Applications must be submitted to the local Service of Trade.

Other Formalities

Foreign companies will also need to submit separate Certificates of Origin, Free Sale, and Analysis. These need to be notarized by the local U.S. Chamber of Commerce in the state that the product is manufactured. Some documents will also require stamps from either the Vietnamese embassy in Washington or the consulate in San Francisco. These documents typically include the Certificate of Free Sale and the Certificate of Origin. Receiving a registration approval can take between two weeks and five months, depending on the clarity and completeness of the official paperwork submitted, the nature of the product samples submitted, the length of the safety and health inspection procedures, and the proclivity of the particular case officers assigned to the registration application to actually complete the work in an efficient and timely manner.

A foreign company can either hire a local attorney or have a state-owned trading company oversee this process and correspondingly work to resolve any subsequent registration complications that may arise. Before retaining legal counsel to oversee the registration process, a foreign company should initially identify a set of qualified attorneys and request that they each provide references for other foreign consumer products, preferably cosmetics, that they previously helped register with Vietnamese authorities. Foreign companies should completely check the references provided since it is significantly less likely that the cosmetics products in question will successfully and quickly obtain necessary registration approvals from governmental officials if the retained legal counsel has not previously performed similar tasks.

The foreign exporter, typically the initial product manufacturer, is responsible for registering the trademarks and trade names with the appropriate Vietnamese authorities. Doing so is critical since rapid copycat producers are abundant in Vietnam. Additionally, violations can only be enforced and violators can only be punished if the marks and names are properly registered before the products are distributed in the marketplace. Foreign companies should only use the services of a reputable international law firm with experience in Vietnam. All companies seeking to introduce and correspondingly protect a trademark should register it with the National Office of Industrial Properties under the Ministry of Science, Technology and Environment (MOSTE).
While trademarks are considered proprietary property indefinitely, they must be renewed every 10 years. A Trademark Licensing Agreement (TLA) can also be registered with MOSTE. The TLA is usually written to narrowly define how and under what conditions the trademark can be used in Vietnam, including its technological usage rights.

In general, importers need a Bill of Lading and a Certificate of Authority as well as more specific licenses, depending on product type and nature, to ship products into Vietnam. Importers increasingly report that government officials are becoming more stringent about documentation requirements, often delaying import approvals for months due to minor paperwork mistakes. It is imperative that all documentation be thorough, accurate, and available in both English and Vietnamese versions.

Taxation:

The Vietnamese Value Added Tax (VAT) is ten percent. The tariff rate is reduced from 50% percent to 30% for perfume and fragrant lotion from the U.S, from 50% to 20-30% for cosmetics. The import duty on cosmetics products is calculated on the CIF value of the shipment. The VAT tax on imported goods is based on their CIF value plus the assessed import duty.

U.S. Commercial Service Vietnam Contacts:

U.S. Commercial Service - Hanoi
6 Ngoc Khanh Street, Ba Dinh Dist
Ms. Ngo Minh Phuong
Tel: (84-4) 831-4650
Fax: (84-4) 831-4540
E-mail: ngo.phuong@mail.doc.gov

U.S. Commercial Service – Ho Chi Minh City
9/F, Saigon Centre Bldg
65 Le Loi Blvd, Hochiminh City, Vietnam
Ms. Nguyen Thi Kieu Huong
Tel: (84-8) 825-0490
Fax: (84-8) 825-0491
E-mail: nguyen.huong@mail.doc.gov