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**Report** —Regulations & Practices—

**Cosmetics**

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## Introduction

This report focuses on the following cosmetics items.

### HS Numbers

- |                        |   |
|------------------------|---|
| 1. 3303                | Perfumes and eau de cologne   |
| 2. 3304                | Skin care and makeup products   |
| 3. 3307.10, 20, 30, 90 | Special-purpose cosmetics (e.g., suntan, sunscreen, shaving, and bath preparations; deodorants) |

### • Categorization of cosmetics

The categories for classifying imported and exported cosmetics are standardized all over the world. This, however, differs from the category of cosmetics featured in Japanese shipment statistics. MITI's Yearbook of Chemical Industries Statistics classifies the domestic shipment values of cosmetics into the following six categories. This report covers all the cosmetics products listed below except for hair care products.

#### 1. Perfumes

#### 2. Eau de cologne

#### 3. Hair care products

Shampoos, hair rinses, hair tonics, hair treatments, regular and stick pomades, hair creams, balms, liquid and foam hair tonics, setting lotions, hair sprays, hair dyes, and other hair care products

#### 4. Skin care products

Facial cleansing creams and foams, massage and cold creams, moisturizing creams, milk lotions, lotions, beauty liquids, facial packs, skin care products for men, other skin care products (Note: Facial cleansing foams include cosmetic soaps)

#### 5. Makeup products

Foundations, powders, lipsticks, lip creams, blushes, eye makeup, eyebrow and eyelash products, manicure or pedicure items (including enamel removers), and other finishing makeup products

#### 6. Special-purpose cosmetics

Sunscreen and suntan products, shaving products, bath cosmetics and other special-purpose cosmetics

## **Market Overview**

Cosmetics comprised a 1 trillion yen market in Japan in 1998 in terms of domestic shipments. This is the world's largest market, together with that of the US. Over the past five years, the cosmetics market has grown at a steady annual rate of around 2.8%.

It is estimated that over 1,000 cosmetics manufacturers are operating in Japan, including foreign companies. This number includes small-scale manufacturers that do not appear in some statistics. They all manufacture and market a large variety of unique products in their respective areas of strength. Since products become outdated quickly, companies need to improve existing products and launch new ones in rapid succession. Manufacturers compete vigorously with one another to develop new products.

In terms of volume, the market has remained unchanged, and has long been viewed as having maturity. Recently, however, signs of major changes are emerging.

The first sign of change is deregulation. Japanese cosmetics are regulated under the Pharmaceutical Affairs Act with the aim of ensuring safety and high quality, and require approvals and licenses prior to market launch. A greater number of components are regulated in Japan than in Europe and the US, and because of this, overseas manufacturers have had to manufacture products with specific prescriptions to meet Japanese regulations, resulting in extra operations and costs.

The planned deregulation will be implemented as a result of the improved quality of cosmetics, increased imports, and the need to coordinate the Japanese Law with European and American regulatory systems. Although the details are yet undecided, the easing of regulations would allow overseas manufacturers to introduce new products in a shorter period of time.

The second sign of change is the change in retailing styles. Japan's cosmetics industry has long been dominated by major manufacturers with solid distribution networks. This has prevented successful retail companies and innovative styles of business from emerging. In 1999, however, the industry saw a series of new moves: leading overseas cosmetics retailers such as Boots and Sephora have opened outlets in Japan, while, to differentiate themselves from other stores, Japan's major retailers have begun dealing directly with overseas manufacturers. These new businesses have the potential to dramatically change the present framework of Japan's cosmetics market.

Deregulation and changes in business styles are expected to bring about major changes in the cosmetics industry, which has long been shielded from international competition. This should create exciting business opportunities for prospective entrants.

It should be remembered, however, that cosmetics is a fiercely competitive industry. Those wishing to enter the market need to first conduct thorough marketing surveys and feasibility studies.

## I. Japan's Cosmetics Market

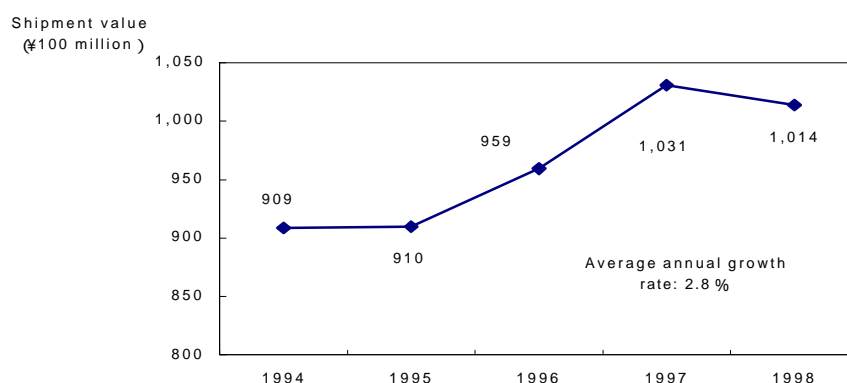
### A. Market trends

#### 1. Scale of market

Cosmetics comprised a 1 trillion yen market in Japan in 1998. In monetary terms, it is the world's largest market, along with that of the United States. Over the past five years, the market has grown at an average annual rate of 2.8%, indicating that it has more or less stabilized and reached a level of maturity.

A distinct characteristic of the Japanese cosmetics market is the dominance of skin care products. This is in sharp contrast to Europe and the US, where fragrances and makeup products account for overwhelmingly high shares of the cosmetics market.

**Fig. 1 Scale of Japanese cosmetics market**



Note: Includes cosmetic facial soaps.

Source: MITI, *Yearbook of Chemical Industries Statistics*

#### 2. Markets by type of product

##### a. Skin care

Skin care products command a large share of the Japanese cosmetics market. To respond to consumers' preoccupation with beautiful skin, manufacturers strategically emphasize skin care, whose products can capture repeat users relatively easily since consumers tend to stick to the same brand. In terms of shipment value by product, ¥581.5 billion worth of skin care products was shipped in 1998, accounting for 57.4% of cosmetics as a whole. Of skin care products, lotions (¥147.7 billion, or 14.6%) and beauty liquids (¥117.5 billion, or 11.6%) comprise the largest markets. Beauty liquids have been faring especially well over the past five years, with the market growing at an average rate of 15.2%.

The skin care product market has grown steadily with the development of new whitening products that have novel added functions such as anti-aging and anti-free radical properties. These multi-featured products are often sold as beauty liquids, and have helped boost these products' market share and maintain their high growth rate.

b. Makeup

Makeup products worth a total of ¥368.7 billion were shipped in 1998, accounting for 36.4% of overall cosmetics shipments. By product, foundations accounted for roughly half of total shipments (worth ¥174.3 billion yen, or 11.6%). Lipsticks, meanwhile, have short fashion cycles, and their shipment value varies substantially from year to year. For 1998, shipment of lipsticks totaled ¥63.88 billion (6.3%), slightly below the previous year's level. Of special note was the growth of eye makeup, eyebrow/eyelash, and nail items. Their average growth rates during the past five years have been 12.7%, 9.8%, and 19.5%, respectively, indicating that a style of makeup that highlights a particular part of one's face or body is steadily taking hold. Especially, the market for nail items is expanding at a particularly steady pace. This is because, with the spread of nail salons, consumers have become more informed.

In addition to these items, shipment of shaving products also grew sharply at a rate of 18.9%.

**Table 1. Size of cosmetics market by product category (general)**

	1994		1995		1996		1997		1998		Average annual growth rate(%)
	Shipment value (¥1 billion)	Share	Shipment value (¥1 billion)	Share	Shipment value (¥1 billion)	Share	Shipment value (¥1 billion)	Share	Shipment value (¥1 billion)	Share	
Perfumes, eau de cologne	19	2.1%	18	2.0%	19	2.0%	15	1.4%	15	1.4%	-6.08
Skin care products	516	56.8%	521	57.3%	556	58.0%	585	56.7%	582	57.4%	3.04
Makeup products	329	36.2%	323	35.5%	335	34.9%	383	37.1%	369	36.4%	2.92
Special -purpose cosmetics	45	5.0%	47	5.2%	49	5.1%	49	4.8%	49	4.8%	1.99
Cosmetics total	909	100.0%	910	100.0%	959	100.0%	1,031	100.0%	1,014	100.0%	2.78

Note: Skin care cosmetics include cosmetic soaps.

Source: Same as Fig. 1.

**Table 2. Size of cosmetics market by product category (detailed)**

Product		1994		1998		Average growth rate (%)
		¥1 billion	%	¥1 billion	%	
	Perfume	1.3	0.1	0.9	0.1	-8.5
	Eau de cologne	17.4	1.9	13.6	1.3	-5.9
Skin care products	Facial cleansing creams and foams	56.5	6.2	51.8	5.1	-2.2
	Cleansing creams	35.1	3.9	35.2	3.5	0.1
	Massage and cold creams	13.9	1.5	12.4	1.2	-2.7
	Moisturizing creams	66.4	7.3	64.7	6.4	-0.6
	Milk lotions	66.3	7.3	62.3	6.1	-1.5
	Lotions	135.9	15.0	147.7	14.6	2.1
	Beauty liquids	66.7	7.3	117.5	11.6	15.2
	Facial packs	23.7	2.6	32.2	3.2	8.0
	Skin care products for men	8.6	0.9	14.8	1.5	14.5
	Other skin care products	43.0	4.7	43.2	4.3	0.1
Makeup products	Foundations	165.5	18.2	174.3	17.2	1.3
	Powders	20.8	2.3	20.5	2.0	-0.4
	Lipsticks	69.0	7.6	63.9	6.3	-1.9
	Lip creams	11.4	1.3	12.6	1.2	2.6
	Blushes	8.5	0.9	9.8	1.0	3.4
	Eye makeup	18.4	2.0	29.7	2.9	12.7
	Eyebrow and eyelash products	19.3	2.1	28.1	2.8	9.8
	Manicure or pedicure items (including enamel removers)	13.3	1.5	27.1	2.7	19.5
	Other finishing makeup products	2.3	0.3	2.7	0.3	4.4
Special-purpose cosmetics	Sunscreen and suntan products	13.5	1.5	13.9	1.4	0.7
	Shaving products	3.6	0.4	7.3	0.7	18.9
	Bath cosmetics	3.7	0.4	3.1	0.3	-4.5
	Other special-purpose cosmetics	24.3	2.7	24.6	2.4	0.3
Total		908.7	100.0	1,013.9	100.0	2.8

Note: Facial cleansing foams include cosmetic soaps.

Source: Japan Cosmetic Industry Association

## B. Trends in product unit price

Over the counter consulting sales and door-to-door sales have stagnated in recent years (the latter because of fewer housewives staying home). To expand their market shares, manufacturers of chain system products which have thus far sold relatively high-priced products face-to-face with consumers over the counter (those that involve networks of affiliated stores; details to be explained later in this report) and companies specializing in door-to-door sales, have been making increasingly successful inroads into the low-priced, self-service sales sector since the middle of the 1990s. The strategies of these manufacturers have greatly reinvigorated and increased this type of sales whereby consumers choose the products they want to buy based on their own judgment. This, however, has had a negative overall impact on the profitability of the cosmetics market, since this sales strategy has driven down the prices of cosmetic products.

**Table 3. Unit price of cosmetics products**

Value of shipment per item	1993	1994	1995	1996	1997	1998
	¥757	¥711	¥682	¥675	¥683	¥667

Note: Includes shampoos and rinses.  
Source: Same as Table 2.

### C. Trends in demand

Japan suffered a major blow as a result of the collapse of the Bubble Economy in 1992. However, the cosmetics industry was relatively unaffected by this, proving once again that this industry is more or less immune to recessions.

In fact, surveys have shown that cosmetics products have consistently accounted for between 0.82 and 0.84% of total household spending over the past ten years. These percentages have remained more or less unchanged.

**Table 4. Share of cosmetics in annual household spending (nationwide)**

	Total spending	Cosmetics spending	Share
Year	¥1,000	¥1,000	(%)
1989	3,592	28.5	0.79
1990	3,734	30.7	0.82
1991	3,925	32.4	0.82
1992	4,004	33.6	0.84
1993	4,023	33.3	0.83
1994	4,006	34.0	0.85
1995	3,949	33.1	0.84
1996	3,946	32.8	0.83
1997	4,000	34.2	0.85

Note: Includes shampoos and rinses.  
Source: Same as Table 2.

### D. Characteristics of the cosmetics industry (structure and profitability)

It is estimated that over 1,000 cosmetics manufacturers operate in Japan, including foreign companies. This number includes small-scale manufacturers that do not appear in some statistics. One of the most distinctive features of the Japanese cosmetics industry, not seen in the European or American markets, is the overwhelming presence of domestic manufacturers that command the lion's share of the market.

Both large and small cosmetics companies manufacture and market a large variety of unique products in their respective areas of strength. Products become outdated quickly and companies need to improve existing products and launch new ones in rapid succession. Manufacturers thus compete vigorously with one another to develop new products.

Many of Japan's cosmetics companies are family operations, and do not disclose



their business details or financial status. Although it is an industry comprising a ¥1 trillion market, there is only one company, Shiseido Co., Ltd., listed in the First Section of the Tokyo Stock Exchange.

For comparison, Table 5 shows the earning power of the four listed companies, including those registered on the over-the-counter market.

**Table 5. Comparison of the earning power of listed companies in the cosmetics industry**

Company	Category	Item		FY'94	FY'95	FY'96	FY'97	FY'98
Shiseido Co., Ltd.	System products	Turnover	¥ billion	394	391	402	404	363
		Operational profit rate	%	7.1	6.5	6.7	6.8	6.6
		Sales management cost rate	%	53.9	53.9	53.4	53.3	51.7
		(Advertisement and PR fees)	%	(7.2)	(7.1)	(6.7)	(7.5)	(7.8)
Noevia Co., Ltd.	Door-to-door sales	Turnover	¥ billion	46	43	45	42	40
		Operational profit rate	%	10.5	11.1	8.1	7.9	4.1
		Sales management cost rate	%	-	57.2	59.9	62.0	64.3
		(Advertisement and PR fees)	%	-	(4.9)	(4.9)	(5.5)	(6.2)
Avon Products Co., Ltd.	Door-to-door sales	Turnover	¥ billion	-	35	32	34	32
		Operational profit rate	%	-	4.8	-0.03	-4.2	1.8
		Sales management cost rate	%	-	62.8	65.8	63.3	60.6
		(Advertisement and PR fees)	%	-	(2.7)	(0.8)	-	-
Mandam Corporation	General products	Turnover	¥ billion	27	28	27	27	28
		Operational profit rate	%	11.4	11.6	9.32	10.6	12.1
		Sales management cost rate	%	-	43.1	45.4	44.1	44
		(Advertisement and PR fees)	%	-	(9.6)	(8.9)	(8.4)	(8.2)

Note: All these companies, except for Shiseido, are registered on the over-the-counter market.  
Sources: Nihon Keizai Shimbun, Inc., *Nikkei Kaisha Nenka*; Toyo Keizai Inc., *Kaisha Shikiho*; Kokusai Shogyo Publishing Corp., *Kokusai Shogyo*

## II. Markets for imported cosmetics

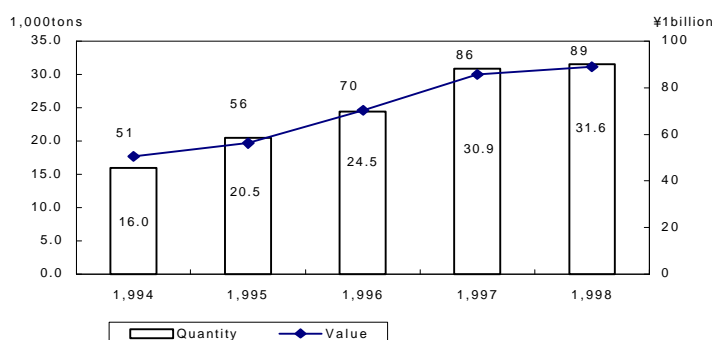
### A. Trends in cosmetics imports

In 1998, approximately 32,000 tons of cosmetics, worth ¥89 billion, were imported into Japan. Cosmetics imports grew steadily between 1994 and 1998 at an average rate of 18.5% in volume and 15.2% in value.

By product, skin care and makeup products accounted for an overwhelming 67% of total imports in value. On a volume basis, special-purpose cosmetics accounted for 50% of total imports, surpassing the share of skin care and makeup products (42% of total imports).

Imported cosmetics are expected to continue growing, since (1) consumer tastes have become increasingly diverse in recent years; (2) consumers no longer distinguish between domestic and imported cosmetics when making purchases; and (3) price differentials between domestic products and imports, except for perfumes, have disappeared almost entirely.

**Fig. 2 Japan's cosmetics imports**



Source: Japan Tariff Association, *Japan Exports and Imports*

**Table 6 Imports by cosmetics category** (in tons, ¥1 million)

	1994		1995		1996		1997		1998	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Skin care and makeup products	10,115	38,292	11,647	42,432	12,828	49,766	14,608	59,930	13,249	59,645
Perfume and eau de cologne	1,460	8,791	1,625	9,095	2,214	12,967	2,661	15,546	2,443	18,292
Special-purpose cosmetics	4,399	3,449	7,248	4,811	9,420	7,578	13,594	10,350	15,956	11,112
Total	15,974	50,532	20,520	56,338	24,462	70,311	30,863	85,826	31,648	89,049

Source: Same as Fig. 2.

In 1998, Japan exported ¥41.16 billion worth of cosmetics and imported ¥89.04 billion worth, indicating that the value of imports almost doubled that of exports. The share of cosmetics imports in the Japanese market continues to rise: they accounted for 8.8% of total domestic shipment value in 1998.

**Table 7. Share of total domestic shipment value of cosmetics accounted for by imports**

	1994		1995		1996		1997		1998		Average annual growth rate(%)
	Value (¥1million)	Share (%)	Value (¥1million)	Share (%)	Value (¥1million)	Share (%)	Value (¥1million)	Share (%)	Value (¥1million)	Share (%)	
Domestic shipment value	908,674	100.0	909,745	100.0	959,374	100.0	1,030,862	100.0	1,013,913	100.0	2.8
Imports	50,532	5.6	56,338	6.2	70,311	7.3	85,826	8.3	89,049	8.8	15.2
Exports	22,155		24,941		27,926		36,786		41,156		16.7

Note: 1. Domestic shipment value includes cosmetic soaps for facial cleansing.  
2. Average annual growth rate is based on value.

Sources: Japan Tariff Association, *Japan Exports and Imports*; MITI, Yearbook of Chemical Industries Statistics

## B. Imports by place of origin

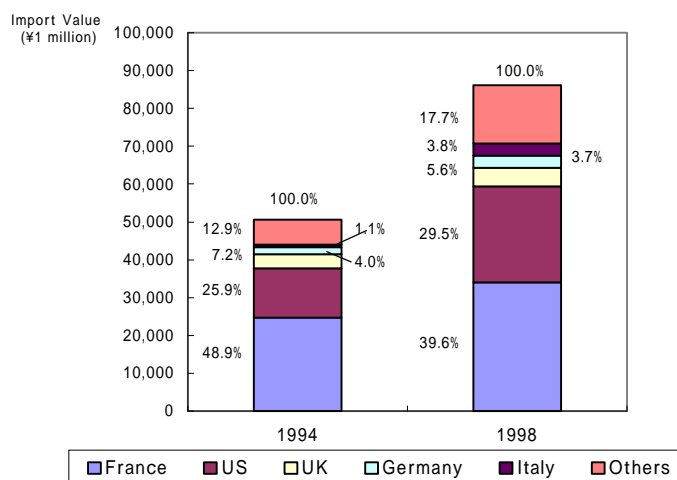
In terms of the value of cosmetics imports by place of origin, France was the leading exporter (¥34.1 billion yen, or 39.6% of total cosmetics imports), followed by the United States (¥25.3 billion yen, or 29.5%). Looked at in terms of country-specific growth rates of imports over the past five-year period, Italy posted the highest annual rate of 54.5%, followed by the United States (18.0%) and Germany (12.6%).

**Table 8. Principal exporters of cosmetics to Japan**

Country	1994	1995	1996	1997	1998		Average annual growth rate (%)
	Value (¥1million)	Value (¥1million)	Value (¥1million)	Value (¥1million)	Value (¥1million)	Volume (1ton)	
France	24,703	28,736	31,057	33,508	34,090	5,245	8.39
US	13,097	14,308	20,752	27,580	25,393	10,860	18.00
UK	3,640	3,555	5,450	5,627	4,799	1,542	7.15
Germany	2,000	1,712	2,422	2,717	3,218	1,022	12.63
Italy	579	813	1,606	2,744	3,297	541	54.48
Subtotal	44,019	49,124	61,287	72,176	70,797	19,210	12.61
Others	6,514	7,214	9,025	13,649	15,253	12,438	23.70
Total	50,533	56,338	70,312	85,825	86,050	31,648	14.23
Total,EU	33,761	38,015	44,355	51,123	52,723	15,633	11.79

Note: Average annual growth rate is based on value.  
Source: Same as Fig. 2.

**Fig. 3 Shares of cosmetics exporters**



Source: Same as Fig. 2.

### **III. Regulations and procedures for importing and sales**

#### **A. Importing regulations and procedures**

Import of cosmetics products into Japan is regulated under the Pharmaceutical Affairs Law and High Pressure Gas Safety Law. Deregulation of the Pharmaceutical Affairs Law is currently being investigated, and is expected to be implemented by March 2001 (See D. “Direction of deregulation”).

##### **1. Pharmaceutical Affairs Law**

Under the Pharmaceutical Affairs Law, products having a gentle action on the body which are designed to prevent nausea or other unpleasant feelings, bad breath, or body odor, prevent heat rash or sores, prevent hair loss, promote hair growth, or remove hair are defined as quasi-drugs while those used for cleansing or beautification are defined as cosmetics. When importing products deemed as cosmetics or quasi-drugs under the Pharmaceutical Affairs Law, a license has to be acquired for the import and sale and approval of license by item must be obtained.

##### **a. License for import and sale**

The application for license to import and sell cosmetic products should be submitted by each office to the section in charge of pharmaceutical affairs in the prefectural government. Acquisition of a license requires satisfaction of “physical requirements” concerning testing and inspection equipment and storage facilities and “personnel requirements” concerning the qualifications of the applicant and the appointment of a “technician” in charge of managing health and sanitation.

Specifically, documents required for application includes the address and the layout of testing laboratory and place of business of importer, a medical certifications for representative and the director-in-charge, documents certifying the qualifications of the technician in charge and an employment contract of the same, and so on. However, the importer may make use of a testing laboratory designated by the Ministry of Health and Welfare.

Licenses must be renewed every certain period.

##### **b. Approval or license by item**

A comprehensive system of approval and licenses is established for each type of cosmetics. Approval or licenses are obtained not for each item, but each type of product. This lightens the burden and shortens the time required. Ingredients which may be used and the amounts are stipulated for each of 11 types of products designated by law, such as “foundation” and “makeup”. When the materials used are within the allowable range, the cosmetics may be imported by simply notifying the

section in charge of pharmaceutical affairs in the prefectural government. When containing an ingredient which is not allowed or when exceeding an upper limit, approval is required. Cosmetics cannot be imported when containing prohibited ingredients (mercury, formalin, etc.)

Following deregulation, it has now become acceptable to submit a list of total ingredients instead of a detailed table of the ingredients concerned if the item being imported is of the same manufacturer and with the same ingredients.

If the importer plans to add another product category or make a change in a current product category being imported, the importer must submit notification of import addition (or alteration) of cosmetics through the same channels described above.

Holders of cosmetics importer's license may import sample merchandise in quantities deemed appropriate by applying to the Inspection and Guidance Division, Pharmaceutical and Medical Safety Affairs Bureau, Ministry of Health and Welfare.

## 2. High Pressure Gas Safety Law procedures

When importing aerosol products, written results of tests certifying that the product does not fall under the High Pressure Gas Safety Law must be submitted to the customs authorities before customs clearance. If the products meet the conditions as set down by the same law, application of the law will be exempted on the condition that the phrase for warning on handling is indicated on the products. Note that products which cannot be certified to that effect must be separately inspected at the time of import.

## **B. Sales regulations and procedures**

Sales of cosmetics products in Japan is regulated under the Pharmaceutical Affairs Law, High Pressure Gas Safety Law, and Fire Service Law.

### 1. Pharmaceutical Affairs Law

A licensing is required for the sale of pharmaceuticals under the Pharmaceutical Affairs Law, but there are no particular regulations such as licensing relating to cosmetics and quasi-drugs.

Advertising and labeling are also regulated under this law.

### 2. High Pressure Gas Safety Law

All products sold in aerosol containers must be indicated as stipulated by law.

### 3. Fire Service Law

Permission from the city mayor or village chief must be obtained or notification would be required when products deemed hazardous under the law are stored in amounts over certain levels or transported over land. Aerosol products using high concentrations of alcohol may fall under this category. You are to ask the fire station concerned for details.

## **C. Indications Procedures**

### 1. Indications stipulated by laws

#### a. Indications stipulated by Pharmaceutical Affairs Law

The Pharmaceutical Affairs Law requires that cosmetics product containers carry indications listing certain specific items of information. The purpose of this requirement is to make sure consumers understand how to properly use the product, to assure the quality of the product and to make clear who is responsible for the product.

Cosmetics product containers, packaging or instructions may not make false or misleading statements or claim effectiveness that have not been properly authorized.

< Required indications >

Cosmetics product must carry the following items:

- 1) Product name (trade name)
- 2) Name and address of importer and distributor
- 3) Content volume (weight or volume)
- 4) Production number or code
- 5) Name of ingredients as required by the Minister of Health and Welfare
- 6) Usage expiration date of cosmetics as designated by the Minister of Health and Welfare

#### b. Indications stipulated by High Pressure Safety Law and Fire Service Law

Aerosol and other hazardous products are subject to stipulations of the High Pressure Safety Law and Fire Service Law. Warning, caution, the type and volume of hazardous products, and other indications as well as the indication method such as the size of the letters used are stipulated by the two laws.

### 2. Voluntary indications based on law

There are no voluntary indications based on laws concerning cosmetics.

### 3. Indications accompanying industry's voluntary restraints

Based on the Act Against Unjustifiable Premiums and Misleading Representations, fair competition agreements and implementation bylaws have been established for cosmetics. These documents are available only to members of the Cosmetics Fair Trade Conference, a voluntary restraint organization.

- Cosmetics Fair Trade Conference Tel: 03-3501-2643

## **D. Direction of deregulation**

To meet changes in market situations such as diversification of consumer needs, increase in imports, and improved quality of cosmetics, and to ensure better compliance with international standards, the government is currently studying the possibility of easing various regulations imposed by the Pharmaceutical Affairs Law. Deregulation is expected to be introduced by March 2001. Below are some of items currently being studied.

### 1. Approvals and licenses for business

The existing system of approval and licensing for the manufacture, import, and sale of cosmetics will remain intact, but requirements for granting approvals and licenses will be eased in the following areas:

- Structural facilities (testing facilities, storage environment, etc.)
- Eligibility of technicians in charge
- Approval and license for each business/sales office engaged in import and sales operations

### 2. Approvals and licenses for products

The system of obtaining prior approval/license for products will be abolished in principle. Therefore, the system of obtaining separate approval and license for each type of product will be abolished.

### 3. Regulations on ingredients

The Ministry of Welfare will draw up the list below, and, based on this list, corporations will be responsible for the manufacture (importation, selling) of cosmetics.

#### a. List of prohibited ingredients ("negative list")

In addition to the approximately twenty ingredients which are currently prohibited from inclusion in cosmetics, the list features a part of ingredients that are

prohibited in Europe and the US. Pharmaceutical ingredients are, in principle, prohibited from being used in cosmetics.

b. List of restricted ingredients (“restricted list”)

These are ingredients whose usage is restricted depending on the amount and usage.

c. List of ingredients that may be used in cosmetics (“positive list”)

Antiseptics and UV filters that are currently provided for in the Cosmetics Quality Standards, and tar pigments provided for in Ministerial Ordinances will be featured in this positive list.

Companies wishing to use antiseptics, UV filters, and tar pigments not included in the positive list may do so only after submitting to the Ministry of Health and Welfare data and documents concerning their safety, undergoing evaluations, and having them included in the positive list.

4. Ingredient labeling

A system of labeling of all ingredients will be introduced. The system of listing only selected ingredients on labels will therefore be abolished.

**Relevant government agencies and offices**

- Pharmaceutical Affairs Law  
Evaluation and Certification Division, Pharmaceutical & Medical Safety Bureau, Ministry of Health and Welfare
- High Pressure Gas Safety Law  
Safety Division, Environmental Protection & Industrial Location Bureau, Ministry of International Trade and Industry
- Fire Service Law  
Dangerous Objects Regulation Division, Fire Defense Agency, Ministry of Home Affairs  
Prefectural fire defense agencies and bureaus; fire stations



## **IV. Distribution Structure**

### **A. Distribution channels for Japanese cosmetics**

Japanese cosmetics are broadly classified into the following four product types according to their distribution channels: (1) chain system products, (2) general products, (3) door-to-door sales products, and (4) mail-order products. The characteristics of each of these products are summarized below.

#### **(1) Chain system products**

Major manufacturers sell directly to retail outlets with which they have concluded chain contracts, through their own sales companies, affiliated sales companies, and/or specific agencies. Since manufacturers and retail outlets are bound by a contract, manufacturers can easily dictate the in-store activities of retailers.

#### **(2) General products**

These are cosmetics that are sold at nonspecific retail outlets through general wholesalers. Since they are sold through an open distribution system, manufacturers find it difficult to control the in-store activities of these retailers.

#### **(3) Door-to-door sales products**

These are cosmetics sold by sales personnel (usually women) who sell directly to consumers in their own homes. Sales are stagnating, since an increasing proportion of housewives are employed outside the home.

#### **(4) Mail-order sales products**

These are cosmetics which manufacturers sell directly to consumers through catalogs and television advertising.

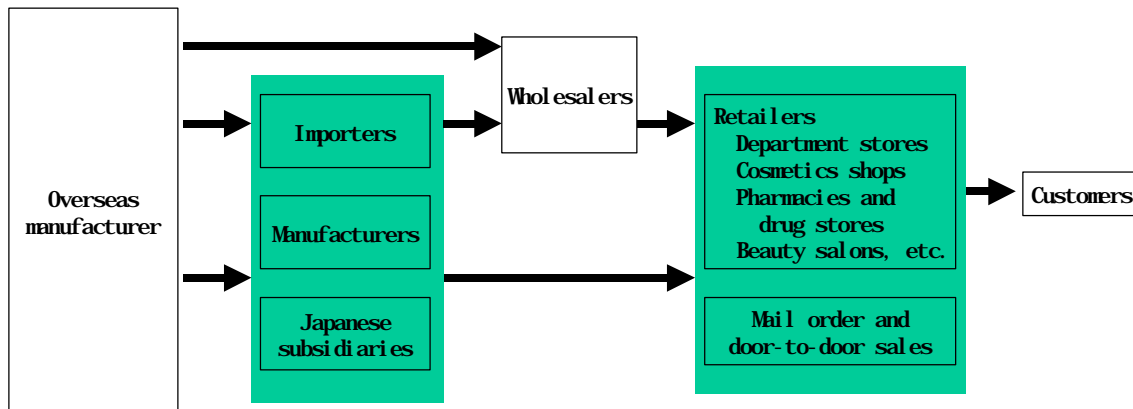
Although there are no quantitative survey data on the shares of different distribution channels, industry sources estimate that chain system products, general products, and door-to-door/mail order sales routes account for one-third each.

### **B. Distribution channels for imported cosmetics**

Overseas cosmetics may be imported and/or sold in the following ways: Japanese subsidiaries of overseas manufacturers sell the products; importers sell products to wholesalers; importers sell directly to retailers; wholesalers import directly from other countries; domestic manufacturers tie up with overseas manufacturers who then import the products. Very few major trading houses handle imported cosmetics, and most importers that specialize in cosmetics are small in scale. Many Japanese subsidiaries of

overseas cosmetics companies manufacture and sell products in Japan. A large number of prestige overseas cosmetics manufacturers limit their sales channels to directly-managed shops located in department stores.

**Fig. 4 Distribution channels for imported cosmetics**



In addition, cosmetics may be imported in the following manner.

- **Development imports**

Some Japanese cosmetics manufacturers now import products which they have developed by tying up with or by acquiring foreign companies.

- **Parallel imports**

Parallel importing takes place only rarely, due to the regulations of the Pharmaceutical Affairs Law restricting such imports.

- **Products brought back by Japanese overseas travelers**

Cosmetics Importers' Association of Japan estimates that Japanese tourists bring back as much or more cosmetics from their foreign trips than are commercially imported into Japan each year. It is believed that a portion of these personal imports end up being sold in the market.

- **Direct imports by individuals**

Individuals may bring into Japan for their own personal use up to two dozen (24 units) of any single product. The "product" here refers not to a brand, but the name of a single product (e.g., in the case of perfumes, Dior is the brand name and Miss Dior is the name of the product). Therefore, if a single brand of perfume has a number of different product names under that brand name label, then theoretically, an individual would be permitted to bring in up to 24 bottles of each separate perfume product.

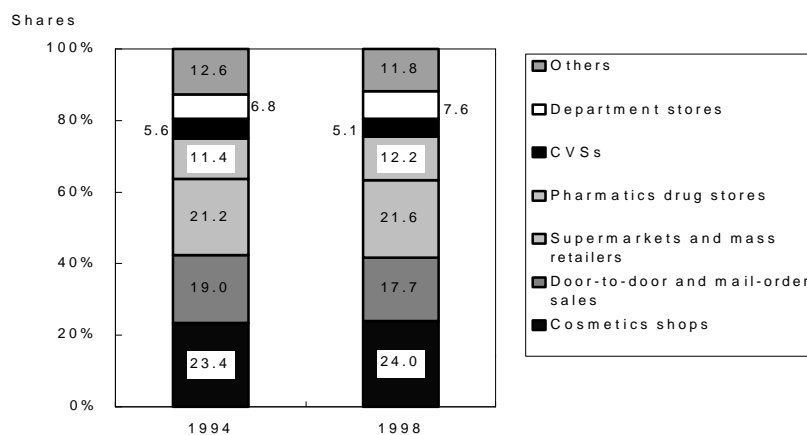
### C. Sales by retail channels

In 1998, 24.0% of all cosmetics were sold at cosmetics shops, followed by supermarkets and mass retailers (21.6%), and door-to-door and mail order sales (17.1%).

Compared with 1994, a notable trend is that, while most major retail categories, such as cosmetics shops, supermarkets/mass retailers, and pharmacies/drug stores, increased sales in 1998, door-to-door and catalog sales dropped.

The door-to-door sales business faces hard times, not only because of structural problems such as questions on the method of sales itself and fewer housewives staying home as a result of the increasing proportion of working women, but also because of waning consumer interest in high-priced items. To regain their business, door-to-door sales manufacturers have begun developing new sales methods, including retail sales through general wholesalers and mail-order sales.

**Fig. 5 Shares of retail channels in cosmetics sales**



- Notes: 1. Includes cosmetic soaps for facial cleansing, shampoos, and rinses.  
 2. "Others" include barber shops, beauty salons, cosmetics for business use, variety stores, and boutiques.

Source: Questionnaire survey targeting 200 cosmetics manufacturers conducted by *Weekly Shogyo*

### D. Changes in sales channels

Distribution in Japan's cosmetics market has long been dominated by a handful of large manufacturers. This has prevented the emergence of successful new retailers and innovative business styles. Recently, however, the retail cosmetics sector is seeing a shakeup. These changes are predicted to provide exciting business opportunities for new market entrants.

## 1. Entry of major foreign cosmetics retailers into the Japanese market

### a. Boots (UK)

Boots, a British drug store chain, made inroads into the Japanese market in 1999. Prior to that, the company spent about two years conducting extensive market research, and, in 1998, established Boots MC Co., Ltd. under a joint venture with Mitsubishi Corporation. The company is capitalized at ¥5 billion, with 51% invested by Boots and 49% by Mitsubishi Corporation. In launching their business in Japan, Boots felt it best to collaborate with a reliable Japanese company rather than do business on its own, in view of (a) the difficulties involved in finding real estate that meets their store-opening strategies and (b) the need to cater to Japanese business practices and markets.

In addition to Japanese and imported cosmetics, Boots stores carry toiletries and over-the-counter drugs. They are planning to introduce original Boots cosmetics as well as other cosmetics that are already marketed in Japan. The stores are positioned as “upscale pharmacies,” an entirely new business category in Japan.

### b. Sephora (France)

Sephora, a high-end perfumery chain affiliated with France’s Louis Vuitton Moët Hennessy (LVMH), established a Japanese subsidiary, Sephora AAP Japan K.K. in 1998, and began opening stores in 1999. The stores handle high-end imported cosmetics which are displayed according to usage instead by brand for easier selection and purchase. Instead of having manufacturers’ sales representatives conduct consultations over the counter, the stores provide sales assistance only upon customer request.

Sephora’s “semi-self service” sales method is revolutionary in that they sell expensive cosmetics by eliminating brand barriers. Their interests conflict directly with manufacturers that have thus far taken the sales initiatives as well as department stores that have supported high-end overseas cosmetics brands to differentiate themselves from other retailers. The industry is closely watching whether or not this type of business will succeed in Japan.

## 2. Major retailers’ development of exclusive overseas brands

Jusco Co., Ltd., Japan’s leading volume retailer, began dealing directly with overseas cosmetics manufacturers including those from Italy and France. Recognizing that they needed unique products to differentiate themselves from the competition, and in anticipation of the planned easing of the Pharmaceutical Affairs Law, the company will boost their competitive strength by becoming the industry’s first to deal directly

with overseas makers. The company plans to set up new cosmetics stores that supersede the “mass retailers” category.

Meanwhile, Matsumotokiyoshi Co., Ltd., one of Japan’s fastest-growing drug store chains, has begun developing and marketing private-brand (PB) products by collaborating with Beauty Products International, a US cosmetics manufacturer, as a protection against the advance of major overseas retail chains into the Japanese market. These PB products will be developed jointly by the two companies, then produced in the US.

## **V. Advice for Market Entry**

### **A. Entry options**

Before entering the Japanese market, companies must gain a thorough understanding of the high costs involved, including land, labor, and distribution. A company should not enter the market by setting up its own channels (stores and sales personnel) from the start: the risks may be too high. Instead, it should choose, from among existing Japanese cosmetics channels, those that suit its products and strategies, collaborate with appropriate partners, distribute their products, and then foster a market. This, however, is just the first step. Only after accumulating a secure track record should a company establish branch offices and subsidiaries.

Generally speaking, a company has three options when selecting a partner.

- (1) To conclude sales contracts with import agencies and/or wholesalers, and market products through their sales routes

Examples

- Oyama International Products Co., Ltd. imports and markets Kiehl's and Smash Box (both US brands), Versace (Italy), and other overseas brands. Products are sold through variety stores, boutiques, and selected department stores.
- Bluebell Japan Limited imports and sells fragrance products, and handles many prestige Parisian and Milanese brands. Products are sold through variety stores and department stores.

- (2) To conclude sales and/or partnership contracts with Japanese cosmetics manufacturers, and market products through their sales channels

Examples

- Kose corporation imports (including development imports) and markets overseas brands through its group subsidiaries, Carte Laboratories Co., Ltd. and Camic Co., Ltd. Carte Laboratories handle such imported brands as Awake, Lorac, and Vincent Longo New York (US). Products are sold through department stores. Camic imports Mateese, a US brand. Products are sold through variety stores, mass retailers, and cosmetics shops.

- (3) To conclude sales contracts with Japanese retailers and deal with them directly

Examples

- Japan's leading volume retailer Jusco Co., Ltd. has concluded exclusive sales contracts with Deborah, Perlier (Italy), Arnaud, Boiron (France) and other overseas brands, to differentiate itself from other stores. The products are sold at Jusco's stores.

- Matsumotokiyoshi Co., Ltd., a major drug store chain, has launched sales of PB products that were developed jointly with Beauty Products International, a US cosmetics manufacturer.

**Table 9. Collaboration with partner companies**

Prospective partners	Collaboration method	Prospective channels examples
Import agencies	Exclusive sales contracts	Store sales Cosmetics shops Spermarkets and mass retailers Pharmacies and drug stores Department stores Varieties stores CVSs etc.
Wholesalers		
Cosmetics manufacturers	Establishment of a joint ventures	Salons Aesthetic salons Beauty salons etc.
Retailers		
		Mail-orders Door-to-door sales

## B. Advice for market entry

### 1. Pharmaceutical Affairs Law

- The biggest obstacle to companies wishing to enter the Japanese market is the Pharmaceutical Affairs Law. The key is whether or not they can change the ingredients of their products to comply with this law. Although the Japanese government is studying the possibility of easing the requirements, ingredients that are currently prohibited from use in cosmetics (e.g., formalin-based antiseptics) will most likely remain on the negative list.

### 2. Products in demand

- Because the products sold in the Japanese market are extremely similar to one another, unique products that clearly distinguish themselves from others are always in demand, and, in this sense, overseas products are expected to fare extremely well. In selecting products, import agencies, retailers and other distributors look for: “unique products that have a clear message and appeal (such as quality, features, and concepts),” “products that suit Japanese tastes and lifestyles,” and “products with brand names and reputations that are more or less established within the country of origin and overseas.”
- According to industry experts, the following product sectors have relatively high

growth potential: anti-aging products in the medium price range, bath/body products, and fragrances. Although the prices of products sold in the Japanese market are falling because of the growth of the self-service sales sector, prices of anti-aging and other high value-added products have remained relatively high. A substantial latent demand is likely to exist, therefore, for medium-priced products. And although sales of bath/body products have not grown too conspicuously in terms of numerical figures, they have greater room for growth than other products.

- One of the distinct characteristics of the Japanese market as compared with its European and US counterparts is its weak fragrance sales. There are signs of change, however. A case in point is Sephora, which opened a new store in 1999 and recently created a stir by dedicating the entire ground floor exclusively to fragrance products, a layout as yet unheard of in Japan.

### 3. Approaching corporations

- In selling products, companies must increase their presence by taking an active part in Cosmo Pro and other cosmetics trade fairs. And, when importing cosmetics, companies need to find and contact competent, influential Japanese agents who are thoroughly versed in, and well respected by, the Japanese market.

### 4. Establishing business

- Provided a company meets the regulations of the Pharmaceutical Affairs Law, and finds a suitable partner, it is not at all difficult to enter the Japanese market. A greater challenge would be to survive in what is a stiff competitive environment and to foster its own market.
- Corporations and industry representatives that frequently deal with overseas manufacturers point out that what they worry about the most is the stable supply of products. They cited the following as the key factors:

- \* Quality standards

The Japanese market imposes high quality standards, but, on the whole, overseas products often do not meet these standards. Japanese manufacturers have defective rates of 3%, but some overseas manufacturers' defective rates are far higher. Frequently-occurring problems include poorly sealed containers, unstable products in terms of color, texture, etc., and shortage or overfilling of contents. Companies wishing to enter the Japanese market are called on to establish production setups that respond to the market's high quality standards. They must also be required to act swiftly if defects are discovered.



\* Delivery

Nothing destroys the trust of a Japanese partner more than delayed delivery or non-delivery. Companies should exercise maximum caution to prevent these from occurring.

5. Price

- It should be noted that, in cosmetics imports, the following costs are added to CIF prices: installation and management of testing facilities; applications for approvals and licenses; personnel such as technicians in charge; and miscellaneous expenses. The rise in these costs is regarded as one of the causes of the price differentials between Japan and other countries.

## **VI. List of Relevant Ministries and Corporations**

### **A. Relevant ministries**

Pharmaceutical Affairs Law  
Evaluation and Certification Div., Pharmaceutical & Medical Safety Bureau, Ministry of Health and Welfare  
Godo Chosha No. 5 Bldg., 1-2-2 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013  
Tel: 03-3503-1711  
Fax: 03-3597-9535

High Pressure Gas Safety Law  
Safety Division, Environmental Protection & Industrial Location Bureau, Ministry of International Trade and Industry  
1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013  
Tel: 03-3501-1511  
Fax: 03-3501-2357

Fire Service Law  
Dangerous Objects Regulation Division, Fire Defense Agency, Ministry of Home Affairs  
JT Bldg., 2-2-1 Toranomom, Minato-ku, Tokyo 105-8440  
Tel: 03-5574-7111  
Fax: 03-5574-0134

### **B. Related organizations**

Cosmetics Importers' Association of Japan  
Roppongi Sun Heights #301, 5-13-1 Roppongi, Minato-ku, Tokyo 106-0032  
Tel: 03-3560-3041  
Fax: 03-3560-3042

Japan Cosmetics Industry Association  
Hatsumei Kaikan 14F, 2-9-14 Toranomom, Minato-ku, Tokyo 105-0001  
Tel: 03-3502-0576  
Fax: 03-3502-0829

### **C. Major manufacturers**

Shiseido Co., Ltd.  
7-5-5 Ginza, Chuo-ku, Tokyo 104-8010  
Tel: 03-3572-5111

Kose Corporation  
Green Hill, 3-6-2 Nihonbashi, Chuo-ku, Tokyo 103-8251  
Tel: 03-3273-1511  
Fax: 03-3276-8655

Mandom Corporation  
5-12 Juniken-cho, Chuo-ku, Osaka-shi, Osaka 540-8530  
Tel: 06-6767-5001

Noevia Co., Ltd.  
7-6-15 Ginza, Chuo-ku, Tokyo 104-8208  
Tel: 04-5568-0300

Avon Products Co., Ltd.  
Tokyo Opera City Tower 29F, 3-20-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-1430  
Tel: 03-5353-9366

Parfums Christian Dior Japon S.A.  
Sumitomo Hanzomon Bldg. Annex, 2-1-2 Hirakawa-cho, Chiyoda-ku, Tokyo 102-0093  
Tel: 03-3263-5777  
Fax: 903-3265-9488

Estée Lauder  
Sanno Park Tower Bldg. 24F, 2-11-1 Nagata-cho, Chiyoda-ku, Tokyo 100-6161  
Tel: 03-5251-3250

Chanel K.K.  
Ebisu Garden Place Tower 33F, 4-20-3 Ebisu, Shibuya-ku, Tokyo 150-6033  
Tel: 03-5421-7500

#### **D. Importing agent**

Oyama International Products Co., Ltd.  
3-9-3 Higashi Nihonbashi, Chuo-ku, Tokyo 103-0004  
Tel: 03-3663-2991  
Fax: 03-3661-5925

#### **E. Retailers**

Jusco Co., Ltd.  
1-5-1 Nakase, Mihama-ku, Chiba-shi, Chiba 261-8515  
Tel: 043-212-6175  
Fax: 043-212-6859

Boots MC Company, Ltd.  
Ichigaya Higashi Bldg. 2F, 2-1-3 Ichigaya-Tamachi, Shinjuku-ku, Tokyo 162-0843  
Tel: 03-5229-6495  
Fax: 03-5229-6432