Summary

The cosmetics market in Thailand is highly competitive. Most international manufacturers and suppliers of cosmetic products are represented in Thailand. All of them invest heavily on promotional campaigns as a way to retain their share of the market and to stimulate the industry. The structure of the market is comprised of four highly competitive sectors: hair care, make-up, skin care and perfume. Cosmetic products from the US lead the import market with 22 percent. Perfume products from France dominate import market with 52 percent share. Channels of distribution for cosmetic products include direct sales, counter sales at department stores and hanging sales at specialty stores. The importation and marketing of cosmetic products is controlled by the Food and Drug Administration Office of the Ministry of Public Health. Approval by this office is required prior to the importation of all cosmetic products.

Market Overview

The overall growth rate of the cosmetic products market in Thailand for 2007 is expected to be approximately 10 percent compared to 8 percent for 2006. The expected growth rate is an optimistic estimation considering the ongoing economic slowdown that began in 2005. Hair care, make-up, and perfume products maintained single digit growth while the skin care sector experienced growth in excess of 10 percent.

Brand image plays an important role in this market. High quality, international branded cosmetic products are expected to do better than medium to low quality cosmetic products and may achieve an overall growth rate of 15 to 20 percent due mainly to positive brand image, brand loyalty and high quality recognition. Brand retention and identification are normally used as advertising strategies in this market. Distributors of high quality cosmetic products tend not to resort to price-cutting. Premiums are widely used in promotional campaigns.

Products from the United States are highly regarded and lead the imported market. Competition from France, Japan, the United Kingdom and Germany is getting stronger. Perfumes from France remain the market leader in Thailand followed by perfumes from the U.S.

Problem-solving product lines such as anti-wrinkle cream, anti-aging facial cream, anti-dandruff hair care, and whitening facial and body lotion have strong growth potential. Over 60 percent of Thailand's imported cosmetic products include high-end facial cream, mostly anti-wrinkle, anti-aging, and other skin care products. Products from the U.S. dominate this sub-sector with approximately 32 percent share of the market. Leading international brands include: Estee Lauder, Clinique, Shiseido, Christian Dior, Lancome, Olay, Eucerin, La Roche-Posay. An increasing number of products specially designed for men have been entering the market.

Thailand remains a strong manufacturer and exporter of shampoos and other hair care products, color cosmetics and skin care products. Local production is mainly geared towards low to medium quality color cosmetics (make-up, lipsticks, nail polish), skin care products (body lotion and bar/liquid soap) and hair care products (mainly shampoo and conditioners). Thai manufacturers of cosmetics are well known for high quality OEM products. Cosmetic products are available in the country at all levels of quality and brand recognition ranging from high-end, well-known international brands to low-end, low quality, locally produced brands. Leading international companies that have production facilities in Thailand include Unilever, Procter & Gamble, Colgate-Palmolive, Lancome and Johnson & Johnson.

Direct sales are the preferred distribution channel and account for 60 percent of the total market.
Market share by subsector:

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<tbody>
<tr>
<td>Hair Care</td>
<td>290</td>
<td>305</td>
<td>322</td>
<td>5</td>
<td>32</td>
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<tr>
<td>Make Up</td>
<td>278</td>
<td>297</td>
<td>319</td>
<td>7</td>
<td>32</td>
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<tr>
<td>Skin Care</td>
<td>271</td>
<td>302</td>
<td>336</td>
<td>10</td>
<td>33</td>
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<tr>
<td>Perfume</td>
<td>27</td>
<td>31</td>
<td>32</td>
<td>3</td>
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<tr>
<td>Total</td>
<td>866</td>
<td>935</td>
<td>1,009</td>
<td>8</td>
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</table>

Exchange rate, US$1: 40 39 36

Sourc es: Industrial Estimate.

The structure of the cosmetic market in Thailand is comprised of four main groups: hair care, make-up, skin care products, and perfume. Hair care, make-up and skin care products have an almost equal share of the total market at approximately 32 percent. Perfume products make up the remaining three percent of the market. The skin care segment experienced the highest growth in 2006 at ten percent. The perfume segment grew at a rate of three percent in 2006 while the market for imported perfume experienced a decrease of 12 percent for the same year.

Market Trends

For the next few years, the Thai cosmetic product market is expected to continue a trend of increased consumption of the following: anti-aging skin care products, whitening products and other customized cosmetics.

Anti-aging cosmetic products in both the higher and lower ends of the quality spectrum continue to have a strong presence in the cosmetics industry in Thailand. Anti-aging products have become the norm among cosmetic users-both male and female. This trend is expected to continue for many years to come. Females seem to be more receptive to the anti-aging concept than males. Most anti-aging products involve skin care, especially facial care. Anti-aging facial care cream and lotion products do very well with high-end customers with whom price is not usually an issue. Generally, customers understand and accept the relationship between the quality of anti-aging products and the price where high quality usually correlates to high price.

Cosmetic products with whitening properties do very well in the Thai market. The popularity of whitening products may be related to the dark complexions of most Thai people and their desire to become lighter skinned. The most popular cosmetic products containing the whitening agent are facial creams and lotions especially those of medium to low quality. There are not many high-end facial care products that contain a whitening agent. Deodorant products that contain whitening agents also do very well in the Thai market. Many roll on deodorant suppliers appear to compete more on the basis of their product’s whitening property than the basic quality of deodorant.

The other trend that recently comes into play in this market is a customized cosmetic designed specially for male. This trend took off only a few years ago out of the prediction of flat growth rate of cosmetic market that generally caters to female customers. The customized cosmetic products open up new group of potential customer and increase customer base in the market. The concept has not done well so far and there are only a few players currently promote this concept. Lever Brothers is one of the leading company that spearhead the customized cosmetic for men. Products such as body sprays, deodorants, and hair care specially designed and packaged for men are getting into the Thai market. Most of them are medium quality products made by local manufacturers.
Import Market

<table>
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<tr>
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<th>2005</th>
<th>2006</th>
<th>2007 (Estimated)</th>
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<tbody>
<tr>
<td></td>
<td>Mil. US$</td>
<td>Mil. US$</td>
<td>Mil. US$</td>
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<tr>
<td>Total Market Size</td>
<td>935</td>
<td>1,009</td>
<td>1,100</td>
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<tr>
<td>Total Local Production</td>
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<td>1,416</td>
<td>1,579</td>
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<tr>
<td>Total Exports*</td>
<td>572</td>
<td>628</td>
<td>722</td>
</tr>
<tr>
<td>Total Imports*</td>
<td>210</td>
<td>221</td>
<td>243</td>
</tr>
<tr>
<td>Imports from the U.S.*</td>
<td>46</td>
<td>48</td>
<td>55</td>
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*The Thai Customs Department, Ministry of Finance
Exchange rate THB36: US$1

In 2006, imports from the US led the import market with a share of 22 percent ($48 million), followed by France at 21 percent ($45 million), Japan at 14 percent ($30 million), China at 7 percent ($15 million), the United Kingdom at 7 percent ($16 million), Germany at 4 percent ($10 million), and other countries including Italy, Belgium, Spain, and Switzerland at 25 percent.

Competition

Competition between suppliers and distributors of cosmetic products is always strong. The prevailing economic slowdown has had an intensifying effect on competition, especially between manufacturers of medium to low quality body care, skin care and hair care products. Suppliers of said products frequently introduce new marketing strategies as a way to not only retain existing customers but also to capture a greater share of the market by enlarging their customer base.

All leading cosmetic companies invest heavily on promotional campaigns in order to stimulate the market. High-end international brand cosmetic companies use women's magazines as major advertising means. Premiums and point-of-sale promotional campaigns are also used regularly to stimulate sales. Counter sales at major department stores are the prevailing sales channel and account for approximately 30 percent of total cosmetic sales in Thailand. Television is the main venue used in advertising/marketing campaigns. Free sampling and giveaways are the two leading promotional strategies used to introduce new products and to stimulate sales of existing products. Unilever and Procter & Gamble are the country's leading spenders in advertising. The major channels of distribution for medium and low quality cosmetic products are discount, drug, and convenience stores as well as direct sales agents.

The use of herbal ingredients as a selling point has increased, especially amongst locally produced cosmetics. The addition of herbal ingredients has proven an effective means of differentiation and adds value to the products. Among the many herbal supplements used, green tea is the most commonly used ingredient. The inclusion of a whitening agent in facial and body care products is widely accepted by Thai buyers and for this reason, has become a highly popular marketing tool. The emergence and ever increasing popularity of spa treatment among locals and foreigners has created new demands for OEM contract manufacturing of cosmetics specially designed for spa consumption.

The overall growth potential for the cosmetic products during the next three years (2006-2008) is optimistically expected to be at somewhat between 15-20 percent. With an approximated customer base of 20 million (women between 15 and 55 years of age-mostly salaried workers), Thailand’s market for cosmetic products has a strong group of potential buyers. Political stability after the general election expected to take place before the end of 2007 should raise consumer confidence and spending.
End Users
In 2006, Thailand reported approximately 40 million inhabitants in the age range of 15 to 55 years of age. The female to male ratio of this segment was almost evenly split at 20 million for each group. According to the record of the Department of Employment, Ministry of Labor, out of the total 40 million people in this age range, 17.05 million of the females and 19.71 million of the males were employed bringing the combined total of employed Thais within this demographic to 36.76. These 40 million people form the major customer and potential consumer base of the Thai cosmetic products market. The demographic can be broken down further into three categories.

15 to 30 years of age: There are approximately 16 million people in this age range, representing 40 percent of the total 40 million people in the age range of 15 to 55 years of age. There are approximately 7.8 million females and 8 million males in this demographic. Given their young age, most of these people may still have junior employment status and may not make very much money. This group of potential buyers is likely to fall in the low to medium quality/price range group of cosmetic products consumers. Five to 10 percent of the 15 to 30 years age demographic may have the spending power to purchase higher-end quality cosmetic products – a result of higher family status and/or better employment due to overseas education credentials.

31 to 45 years of age: There are approximately 16 million people in this age range, representing 40 percent of the 40 million people in the age range of 15 to 55 years of age. There are 8.2 million females and 7.8 million males in this group of potential buyers. They are of a mature, working age group with mid-level to senior management. They are considered a good prospect within the medium to high quality cosmetic products market.

45 to 55 years of age: There are a total of 7.8 million people (4.1 million male, 3.7 million female) in this age range, representing 20 percent of the 40 million people in the age range of 15 to 55 years of age. This group of people represent great consumer potential for high quality/price cosmetic products. Medium quality/price cosmetic products also enjoy great potential with this demographic.

Market Access
The importation of cosmetic products is controlled by the Thai Food and Drug Administration (FDA) of the Ministry of Public Health. Product registration is required prior to the actual importation and marketing of the cosmetic products. The registration process is not complicated, but may take one to two months time. The basic documents required by the Thai FDA include:

1) A notarized Certificate of Free Sale or a Certificate of Manufacture issued by the manufacturer in the manufacturing country (United States)
2) A full ingredient/composition listing as issued by the manufacturer

Both documents have to be notarized and legalized either by the Thai Consulate in Washington, DC or the American Embassy in Bangkok, Thailand.

Import Duty

<table>
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<tr>
<th>HS Code No.</th>
<th>Descriptions</th>
<th>Duty Rate (%)</th>
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<tbody>
<tr>
<td>3303</td>
<td>Perfume</td>
<td>30</td>
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<tr>
<td>3304</td>
<td>Make Up Products &amp; Lotion</td>
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<tr>
<td>3305</td>
<td>Hair Care Products</td>
<td>20</td>
</tr>
<tr>
<td>3307</td>
<td>Shaving Products and Deodorant</td>
<td>20</td>
</tr>
</tbody>
</table>

Official contacts for import authorization and registration of cosmetic products are:
Market Entry

Direct sales (60 percent) - direct selling has been very popular for a number of years and is expected to remain a major marketing channel for cosmetic products in Thailand for many years to come. Direct selling is the most effective way of introducing new medium and low-end cosmetic products to the market. In the direct sales channel, price is more attractive than product quality. Some of the international direct-sale companies operating in Thailand include: Amway, Avon, Herbal Life, Nu Skin, Nu Life, Nature's Best, NutriMetic.

Counter sales (30 percent) - this is a standard venue for marketing high quality/price and well-known internationally well-known brands of cosmetic products. There are 108 department store locations concentrated in major cities including Bangkok, Chiangmai, Cholburi, Nakornratchasima, Phuket, and Songkhla. Major department stores include: Central Department Store Department Stores (17 stores), Robinson Department Store (18 stores), The Mall Department Stores (6 stores), Emporium (1store), Siam Paragon (1 store), Imperial Department Stores (2 stores), ZEN (1 store), Tang Hua Seng (1 store)

Hanging sales (10 percent) - this channel is directed toward young buyers and the mass market for medium and low-end cosmetic products. Major players in this sector include: Boots, Watson, Red Earth, TOPs Supermarket, Big C, Carrefour, Tesco Lotus. Major brands of cosmetic include: Mary Kay, Maybelene, Oil of Olay, Johnson & Johnson, Procter & Gamble, and Unilever.

One of the requirements by the Thai FDA in registering a cosmetic product is a local contact address. This requirement limits international suppliers to two choices: either set up an office in Thailand or appoint local market representation. The use of distributors or agents to import and market cosmetic products is common business practice. A distributor or agent in Thailand facilitates market entry and fulfils the Thai FDA’s requirement of a local contact address before an applicant may register a cosmetic product. Generally, the distributor or agent will consider product registration as part of their job when representing international manufacturers.

Local distributors or agents not only provide an established relationship with buyers and end-users, they also provide assistance and service to international manufacturers. Said assistance normally includes product registration with the Thai FDA, customs clearing at port of entry, warehousing and product
logistics, and marketing promotions. The distributor/agent in Thailand prefers an exclusive rights arrangement. There are several reasons for this preference. The leading reason is to avoid the price cutting practice that always takes place given the presence of multiple representatives. The other reason is the increased investment of efforts and promotional activities by the distributor in marketing the products. With the presence of multiple representations each distributor will more than likely hesitate to invest in any form of promotion. It makes more sense to work with a distributor or agent, under realistic distributorship terms and conditions, in order to build up the business in Thailand.

Opportunities for Profile Building

Thai Direct Selling Association
8th Floor, BB Bldg., Room 3818
54 Sukhumvit Soi 21 Road
North Klongtoey, Wattana
Bangkok 10110
Thailand
Tel: 662-664-4496
Fax: 662-664-4497
E-mail: sukanda@tdsa.org
Ms. Sukanda Choonhachatcharachai - Manager

Upcoming Trade Shows/Events.

Name: Thailand Health & Beauty Show 2007
Date: November 7-11, 2007
Venue: Impact Convention Center, Nonthaburi, Thailand
Profile: International Exhibition on beauty and aromatherapy products, spa and resort services, Health and clinical services, cosmetic raw material, and processing equipment.
Organizer: Department of Export Promotion
Ministry of Commerce
Website: http://www.thaitradefair.com

For More Information

The U.S. Commercial Service in Bangkok can be contacted via e-mail at: npupoks@mail.doc.gov ; Phone: 662-205-5090; Fax: 662-255-2915; or visit our website: http://www.buyusa.gov/thailand/en

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