

Luxasia group ceo Wolfgang Baier

Looking to the long term

Luxasia group ceo Wolfgang Baier tells *BW Confidential* about the measures the company has implemented to weather the COVID-19 crisis and gives his views on how the pandemic will influence digital, retailing and consumers in Asia Pacific over the long term
by Oonagh Phillips

Asian distribution group Luxasia has been dealing with the COVID-19 crisis since January. Nearly five months on, and without undermining the impact of the crisis on business and consumers, the Singapore-based company remains bullish on China and the overall Asia-Pacific market. The company says it will continue to invest in its 15 markets and in its brand portfolio, is looking forward to a rebound in the second half and expects the Asia Pacific market to return to its pre-COVID-19 growth rate of 6%.

In addition, Luxasia sees opportunities in boosting its online business, fine-tuning its CRM strategy, finding potential acquisition targets, all while capitalizing on the fundamental growth drivers in the region. It views the crisis as accelerating the already strong trend towards digital in the region, whether in terms of social-media and using KOLs and e-commerce. But at the same time, it is analyzing how to rebuild retail traffic, both through in-store events and digital marketing. The company's bet on omni-channel, which it took as part of what it calls its transformation in 2016, seems to be paying off.

What have you done to deal with the crisis?

Our top priority is to care for our people. As we have a sizeable business in North Asia including China, we saw early on the potential impact of COVID-19, not just on Asia, but on the world. As such, we started to fortify the business early—around the end of January 2020.

We implemented a slew of precautions and a robust business continuity plan. In terms of communications, we set up a monthly 'Group CEO' livestreaming broadcast. We also set up messaging app chat groups to coordinate efforts across the region and intra-country when travel is restricted. In addition, we implemented an emergency management plan, with full scenario-planning and crisis communications for every plausible scenario.

In terms of our workforce, we adjusted working hours and salaries of some employees to contain costs. In this area, the leadership team led by example with steep salary cuts. We put into place split team arrangements and working from home. Right now, only China is fully back at work in the office. We also took operational precautions, such as mask distribution, temperature screening and contact-tracing.

Now, the talk of the town is China, with its early signs of recovery. We are continuing to invest in our core brands in China, such as Peter Thomas Roth and Ferragamo, as well as brands like Sigma Beauty, Jeffrey Star and Dr Brandt. We formed a joint venture with By Terry for China, Singapore, Hong Kong, and Australia in December 2019. We

have an exclusive online and offline agreement with Sephora China to launch By Terry in mid-2020—we are excited and hopeful.

Luxasia thrives on the strong partnerships that were built over 34 years with both global brands and the local trade across Asia Pacific—this is a key differentiator. Coming out of COVID-19 requires us to operate with empathy, a spirit of collaboration and mutual support.

What will be the impact on Luxasia and the market?

We still believe in the strong, long-term growth of the Asia Pacific beauty market. It is home to more than 60% of the world's population, totaling 4.3 billion people (of which Luxasia's 15 markets comprise more than 3 billion), and houses a rapidly growing middle-class. Beauty consumption is not just booming here, it is where consumers are also trading up in their brand preferences.

We believe that Asia Pacific is still set to be the largest beauty market in the world within the next five years, to make up more than half of the global luxury beauty market by then. Pre-COVID-19, beauty consumption in Asia Pacific was growing at around 6%, and we expect this growth to return. While this episode is painful and intense, it is temporary and will pass. The market fundamentals driving Asia Pacific growth remain—they do not vanish with COVID-19.

We started our corporate transformation in September 2016. We planned a five-year journey to transform the way we engage consumers, build brands online and offline and operate in terms of efficiency. This is on track and we were on a very good trajectory—faster than planned. COVID-19 is not a dead-end, but a temporary speed-limit. We will accelerate again once all markets recover.

Luxasia has invested in Asia Pacific for 34 years and we intend to continue operating in every single one of our markets. While all our teams have taken some temporary salary adjustments and undergone some re-sizing, we have kept all local offices in tact and fully functional as it is priceless to have competent teams in each market.

What have been the differences in strategy by market?

There is no simple answer to this question, and it depends on local government decisions and measures, which change on a weekly, if not daily, basis. We set up a Nerve Centre comprising the chairman, the C-suite, and regional managing directors to monitor daily market developments, coordinate responses, make decisions and look into areas of inventory management, internal and external communications and cashflow. We also coordinated with local-market teams to ensure

compliance with government regulations.

In addition, we coordinated efforts across multiple teams for an even more extensive roll-out of online commerce, in terms of brand management, warehousing, last-mile delivery, customer service support, together with all associated vendors and partners.

We also developed post-crisis recovery plans with a focus on e-commerce, CRM and consumer experience. With our brand partners we re-calibrated business plans for 2020, identified strategic and tactical opportunities and prioritized open, regular communications to act fast and co-invest with them so we can seize opportunities and win market share. In addition, we aligned on the focus areas to invest in as the market rebounds in the second half of the year.

With trade and channel partners, we need to re-evaluate our go-to-market strategy in each market and re-optimize our channel mix post-crisis. We are sitting down with all our partners across our 4,500 points of sale to make sure we have the right coverage during the crisis and the right set up to succeed after the crisis.

Our strength is in the depth of our relationships with our channel partners. This gives us very good access to prime spots for pop-ups and animations for product launches in the second half of 2020.

In terms of reaching consumers we are lucky that we started to build a very strong CRM system and processes with Salesforce.com three years ago. This is now helping us in the months of low business volume as we can interact directly with our consumers.

When it comes to offline—we need to rebuild retail traffic and re-direct consumers back to stores through in-store promotions and campaigns, "phygital" brand experiences, pop-ups, animations and consumer events.

As for digital marketing, our luxury consumer database has grown by more than 24 times since September 2016, and we now have access to more than 1.2 million luxury consumers in our database, with 1.6 million validated preferences for effective targeted marketing. Our capabilities to scale up and execute digital marketing have been both tested and enhanced with insights gained during this COVID-19 period, where offline sales pivoted online. We are talking about brand representation on multiple platforms, fulfilment and even post-purchase customer service for an omnichannel consumer experience.

KOL-engagement, live-streaming, compelling content, social campaigns, content creation have all been done successfully in China, Taiwan, Singapore and many markets. In China, we have worked with well-known beauty KOL, Austin Li for some of our brands ■■■

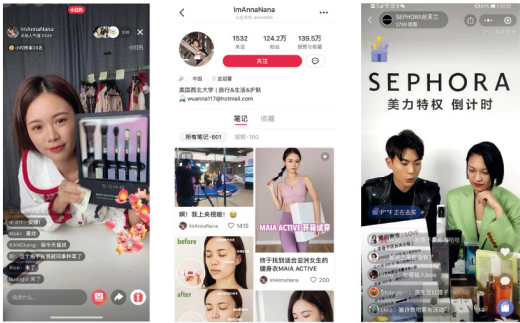
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▲ Luxasia has put a strong focus on digital marketing and social media. It has teamed up with KOLs for initiatives on Little Red Book and TikTok and partnered with Sephora for campaigns on WeChat

■ products to remarkable effect. We have also worked with celebrities, such as Mao Zijun for Peter Thomas Roth, and celebrity couple Chen Long and Zhang Ling Zhi for Dr Brandt. These campaigns have boosted both brand resonance and sales, on the back of more than 200 million social-media impressions a year across relevant platforms. The power of KOLs in China is not to be underestimated. We have also had a good pilot of KOL social-selling in Vietnam.

How do you communicate with clients and consumers?
It is important to recognize that everyone is having a tough time. With our brands, we give them timely email updates by market about how the situation is unfolding, while sharing opportunities and pitfalls to avoid. Also, now is not the time to haggle over token nominal costs—it is about extending mutual support and helping each other ride out the storm. We extend assistance and support in kind from our end, expecting that our partners and stakeholders do so in return.
With our consumers, we engage them via direct digital marketing through emails and SMS, as well as through all our social-media and e-commerce platforms. We keep them updated about store openings and closures in line with government regulations. In the way we sell, we have piloted a few ideas that couple digital marketing, social-selling, and a personal touch. For example, Luxasia's retail concept for luxury niche and cult brands in Singapore, essentials has been growing well and we recently opened our third retail store in Orchard ION in Singapore. Because of our good relationships with our clientele, as well as a compelling online platform, we are able to reach consumers through digital, social media, and personal call marketing. We can activate them through special campaigns on Instagram, directing them to essentials.com, and even fulfil orders made through personal calls. These omnichannel initiatives bring in good sales in a period when

retail footprint is less than 10% of its usual volume.
Another example is a concept we call "Chat and Shop". We manage the Facebook and Instagram pages for a number of our brand partners. Through digital marketing and organic activation on these platforms, we can engage with consumers through the official pages/account, chat with them, offer personalized recommendations, and even sweeten the deal with gifts with purchases. We also work closely with our retail partners to enable this for our brands listed on their e-commerce sites. All this has given us good revenue uplifts.

Can you see retailers not surviving this crisis and a decline in the number of brick-and-mortar doors in the market?
From an Asia-Pacific perspective, we believe that most key retailers will survive. We are in close collaboration with regional department stores and chain stores, as well as local perfumeries and chains in Asia Pacific, spanning more than 4,500 points of sale. We also operate more than 100 boutiques here. We have daily conversations with the trade, and are working on getting out of this crisis together.
Asia Pacific is the beauty market of both today and the future. The market will outpace the global market in both growth rate and absolute size, number of doors notwithstanding. That said, there will be players that may exit as a result of the crisis. For example, UK-based SpaceNK has closed its China stores, while some department stores in the region are also cutting back on their retail footprint. The key ingredient for survival is an omnichannel offering, even for retailers. There is a need to pay attention to e-commerce, digital marketing and social-media engagement with consumers. We have seen good traction, results, and even turnarounds for partners who developed a compelling online offering. As with every crisis, there will be those who will not make it, and those who emerge even stronger.

How has e-commerce increased given store closures?
E-commerce has been growing rapidly for us since the launch of our transformation in September 2016. We have grown more than 30 times in online sales and have brought brands onto more than 280 official online stores on a range of e-commerce platforms, such as Tmall, Lazada, Zalora, Shopee, ET Mall, BeautyMNL and Sociolla.
As such, we are unable to specifically attribute the growth in e-commerce arising from COVID-19. What we can share is that for the first quarter of 2020, compared to year-on-year first quarter 2019, we have more than doubled our e-commerce sales on online marketplaces. This is an especially a strong signal as online sales in the first quarter of each year tend to be slower due to 'online shopping fatigue' after every year-end. So, in this sense, we are certain that COVID-19 has caused an uplift to online sales.
We also see very strong growth on retail platforms such as Sephora online. On Tmall, we have brands like Dr Brandt, StriVectin, and Sigma Beauty, and with COVID-19 as an impetus, we are already working with even more brands to accelerate their listing there.
However, this is still unable to compensate for the decline in offline sales due to COVID-19. Many of the online orders were impeded by last-mile delivery restrictions put in place by authorities during this period. So, while we expected online orders to continue to grow, consumer-side demand was also impeded because consumers knew that there would be a delay in the delivery of their goods. This was observed in China when the government re-directed supply chain manpower to assist badly affected cities for the delivery of medical supplies.

How do you see the rebound in China?
There are early signs of recovery. Beauty retail is still a far cry from its peak, but it is already improving, and we expect to go back to pre-crisis levels over the next months, barring any further complications with COVID-19 in China.
Retailers are focusing on consumer engagement and promotions to rejuvenate traffic and sales. We are working very closely with Sephora in China, as well as chains like Joyce Beauty, Sa Sa and Beast on campaigns, across online and offline launches that focus more on consumer experience and less on discounts. Tmall online sales through KOL-driven activation, coupled with social engagement on Little Red Book (the Instagram for all things beauty in China) are also picking up well. Our teams there are taking good advantage of this. Our most recent KOL campaign saw one of China's Top-10 Tmall KOLs, Lin Shan Shan, talking about beauty brushes from Sigma Beauty. Through this, we gained a viewership of one million during the Tmall livestream for a relatively new brand to Chinese consumers, achieving excellent brand awareness.
WeChat is not just for messaging, but for a host of activities and transactions. On WeChat, not only do we manage our own Luxasia and Peter Thomas Roth mini-programs, we partner with Sephora on brand-building and consumer activation campaigns in their mini-program too. This propelled Peter Thomas Roth to the number-one Sephora exclusive skincare brand online—we saw more than three days' worth of sales during a 90-minute segment on WeChat recently.

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How will this crisis will change consumer behavior?
The shift in consumer behavior and shopping habits began even before COVID-19. The pandemic is accelerating the change towards more digital and omni-channel business. It has accelerated the growth of the e-commerce wallet share of beauty consumers and highlighted the need to engage consumers more digitally. However, brick-and-mortar retail will still be critical to the beauty experience—if anything, COVID-19 and the lockdowns have shown how much we crave personal touches and interpersonal interactions.

Do you see any opportunities in this crisis?
We see opportunities unfolding. We are financially stable and strong and can help brands to expand quickly. There may also be opportunities in the M&A space to deepen our regional link. For example, even as we speak, we are already spotting good opportunities in China and North Asia and are poised to make the best of it. We are investing and staying in China. We do not see many distributors with luxury retail strengths and the financial strength in the markets that we are in. We are already the leading platform for beauty and luxury brands in Asia Pacific, and we want to extend the lead further.
To-date, the full potential for beauty e-commerce and consumer engagement via social and digital marketing has yet to be unlocked. Many mid-sized, indie, niche, and cult brands do not have the scale or capabilities to tackle the complexities of consumer preferences in Southeast Asia, let alone Asia Pacific. We are here for them.
Our renewed omnichannel capabilities have been validated by new key partnership wins, including being appointed in August 2019 as the full-service distributor of skincare brand SK-II for Singapore, Malaysia, Thailand and Indonesia. We are fully confident of being able to enhance the business of even established brands because of our local market relationships and consumer knowledge. ■