

Headline: [Cover Story] Pacific Quest

By Susan Kitchens, May.08.2006

Suh Kyung-Bae's father built what has become South Korea's largest and most luxurious cosmetics company. It's now up to Suh to pick up where Dad left off--finding new markets for growth.

Inside the Amorepacific spa in New York City's fashionable SoHo district, customers find a perfect picture of tranquility. Women dressed in black shirts and slacks move about silently, mixing oils and green-tea essences for massage treatments. Cherry-blossom fronds bend gently from a tall vase. The air is scented with jasmine and bamboo, and soothing music infused with the sound of crashing waves is piped into the airy space, drowning out the noise of the city just outside the door. It is, as Amorepacific Chief Executive Suh Kyung-Bae describes it, "a calm and holistic approach" to beauty.

Don't let the serenity fool you. The Zen-like atmosphere belies the 43-year-old Suh's huge ambition. Selling everything from high-end moisturizers and body washes to \$3 lip glosses aimed at the teenage crowd, Amorepacific is easily South Korea's largest cosmetics company. Controlling 36% of the local market, the Seoul company rang up \$1.3 billion in sales last year, up 9% from the year before. Profits rose 11% to \$161.5 million.

In the past year Amorepacific's share price has jumped 41% on the Korean exchange. That's helped put Suh, whose grandmother started the business out of a farmhouse in the 1930s, at No. 7 this year on FORBES ASIA's list of South Korea's 40 Richest, with a fortune totaling \$955 million. Intensely private, he lives a stone's throw from his office so that he can maximize his time at work.

The problem for Amorepacific is that it makes fully 90% of its sales in its saturated home market and is little known outside South Korea. So Suh is mounting a bold push overseas, targeting the U.S., Asia and France. There are no plans now for another spa in the U.S. like the one in SoHo, which opened in late 2003 to showcase the company's products and generate buzz in the world's media capital. But after noticing a rising demand in the U.S. for exotic Asian ingredients in cosmetics and the sudden popularity of Asian beauty

treatments, Amorepacific is ramping up sales in upmarket department stores. In China the company is counting on riding the "Korean wave" phenomenon, the sudden appeal of all things Korean throughout East Asia. And in France it's targeting consumers of high-end fragrances.

Suh, who agreed to talk to FORBES ASIA after years of shying away from the press, wants at least one-quarter of revenue to come from the rest of Asia, the U.S. and France by 2015. "If we want to grow faster, we have to grow outside of the Korean market," he says.

That will be a challenge for an outfit that's merely a pipsqueak in the enormous and fiercely competitive market for cosmetics worldwide. Big players with globally recognized brand names, such as L'Oréal and Estée Lauder, dominate sales in country after country. Amorepacific recorded only \$109 million in non-Korean sales last year, and WWDBeautyBiz, a trade publication, says its total revenues rank just 25th in the industry. Suh is not daunted; he aims to break into the top ten within ten years. The current number ten, Kao Corp. of Japan, has \$3 billion in annual sales, more than twice Amorepacific's.

The company hasn't made money yet overseas. But it has no debt on its balance sheet, and Suh isn't worried. For at least the next three years he expects double-digit growth overseas to continue, and he looks for the non-Korean operations to break even in two years. "This is our investment period," he says.

Amorepacific may just be gearing up overseas, but ever since World War II that's been the plan. Living in a farming village in present-day North Korea, Suh's grandmother, Yun Dok-Jeong, started making camellia-based hair oils and creams as a sideline. As a young boy Suh's father, Suh Sung-Whan, learned how to make the creams. Later his mother had him collecting bills from customers and riding his bicycle to Seoul--a 50-mile round-trip--to pick up bottles and labels.

Suh's grandmother had simply called her enterprise "Prosperous Store." But when Suh's father took over in 1945, he renamed the company Pacific Chemical Industry because, with the war over, he planned to sell his products across the Pacific and beyond. In 1948 the family moved the business south, to Seoul. Suh's father died in 2003.

Suh was born and raised even closer to the company headquarters--right next door--than where he lives now (the site today houses a nursery for employees' children).

Intimate exposure to the family business apparently had the opposite effect on him than on his siblings. Suh began to contemplate following his father's path while still in high school, while his older brother and four sisters took little interest in it. After graduating from Seoul's Yonsei University, he earned an M.B.A. from Cornell University in upstate New York.

After returning to South Korea he began working as a low-level manager at an Amorepacific cosmetics plant near Seoul and soon sensed that trouble was brewing. By the late 1980s the company had expanded far beyond beauty products and looked like any other Korean conglomerate: bloated and incongruous. To boost sales the company now had an insurer, a baseball team and some two dozen other businesses, but it was losing its focus on the cosmetics business. "The idea was to spread risk among the different lines," says Suh. "But that's just a financial theory. Business isn't that way."

Then the company's mainstay cosmetics business came under assault. After the South Korean government lifted some tariffs in the early 1990s, U.S. and European cosmetics brands flooded the market. Labor problems hurt even more--strikes shut down cosmetics production for two months. The company flirted with bankruptcy.

Suh and his father held an emergency meeting. "We talked about what we would do if we could start over from the beginning," recalls Suh. They chose to focus on cosmetics. "Thanks to the strike, we changed our whole mind-set."

Father and son got to work. They began by slashing extraneous companies: today only six remain and they all are related to the cosmetics business. ("The one thing I miss is that I used to get a very nice seat from the baseball team," Suh jokes.) Then they devised different strategies for different products, selling the most expensive brands door-to-door and in high-end department stores, and the low-end brands in neighborhood shops. Soon after, in early 1997, Suh became CEO and set his sights overseas, later renaming the company Amorepacific after an old brand.

The timing was perfect. By the end of that year South Korea had fallen victim to the Asian financial crisis, forcing many of the country's conglomerates to jettison units and slash debt. Having already endured that exercise, Amorepacific was ready to handle the tough times as layoffs mounted throughout the economy and consumer spending shrank.

Amorepacific has tried to go global before. In the 1980s it entered Indonesia, but the Korean sales force it dispatched from headquarters was clueless about the local market. In the early 1990s it tried France but found that the "Made in Korea" labels on its imported lotions and creams turned off French women and that they particularly didn't care for the skin-whitening creams popular in Asia. "We didn't know how to sell to a French woman," says Suh. "We just didn't have local expertise."

So in 1995 Amorepacific pulled out of the French skin-care business, focused on the fragrance market--94% of the women there wear perfume--and dispensed with the Korean labels. In 1997, after teaming up with an exclusive French designer and poaching a top Christian Dior perfume marketer, Amorepacific launched Lolita Lempicka, a musky offering made in France that was the fourth-best-selling perfume in the country last year, according to U.S. research group Mintel, and is now sold in 80 countries. In the next two years Suh aims nearly to double 2005 European sales of \$46.9 million.

Growth like that is great, but it's not going to put Amorepacific in the top ten. For this Suh needs big numbers in rapidly growing China. The company jumped into the country full-force in 2002 with one of its popular skin-care brands back home, Laneige. The target: women willing to pay \$30 a jar at Shanghai department stores instead of the typical \$2 for a Chinese offering. "It may seem expensive," says Suh, "but young Chinese ladies can afford this." Besides, he adds, brands such as Chanel go for \$70 there. The company's skin-care and perfume lines are now sold at counters in 100 department stores in Nanjing, Beijing, Chongqing and Shanghai. In Hong Kong a dozen high-end shops carry the lotions and creams.

In China Suh is capitalizing on his company's familiarity with Asians' skin--giving him an edge over the Western multinationals. And he's signed Korean actress Jeon Ji-hyun, who's hugely popular in China, as the face of the brand. Suh sees Amorepacific's China sales jumping from \$28 million last year to \$70 million by 2008. Still, the competition is intensifying; \$5.8-billion-a-year Japanese rival Shiseido, for one, is also expanding quickly on the mainland.

Amorepacific also expects to open its first two stores in Japan this year, taking the battle right to Shiseido's backyard. The two companies have had a long, strange relationship. Back in the 1980s Shiseido began supplying it with technical assistance to improve its products. Later Shiseido got help in distributing some of its cosmetics in South Korea.

Neither company seemed to view the other one as competition until three years ago, and finally their joint venture was dissolved.

In the U.S. Suh will stick to a small market--the superluxury customer who doesn't flinch at paying a cool \$400 for a 1.7-ounce jar of green-tea-infused skin-renewal cream. "We believe we are the company that can contribute another approach to beauty there." U.S. sales are negligible, just \$9.3 million last year. Suh is aiming for \$12 million in two years. Amorepacific spends little on advertising in the U.S., instead relying on the occasional story in fashion magazines.

Of course, Suh can't take his eye off the South Korean market. Homegrown upstarts such as the Face Shop are rapidly winning mass-market consumers, so he's opening more stores to sell his inexpensive products to that segment. And foreign invaders keep devising ways to steal customers. No relaxing at the spa anytime soon for him.

Not just for drinking

Susan Kitchens, May.08.2006

Red ginseng, bamboo sap and green-tea extracts are key ingredients of many of Amorepacific's expensive skin creams. South Korea's top cosmetics company gets the ginseng and bamboo from Korean farms and other local suppliers. But not just any tea leaves will do: Amorepacific owns its own tea farms, the largest in the country, and won't use tea plants from anywhere else.

Suh Sung-Whan, who ran the company from 1945 until turning it over to his son in 1997, had long been convinced of the health benefits of green tea. But he didn't begin incorporating tea plants into his products until 1990. Today Amorepacific uses nearly every part of the plant--leaves, stem and seed oil. But only the youngest, tenderest leaves, grown on the company's farms on Cheju (a volcanic island off the southern coast where temperatures rarely dip below freezing and the soil is rich in nutrients) and picked at first harvest, make the cut.

Amorepacific also produces green tea for drinking under the brand name Sulloc Cha, and it claims half of the local green-tea market. That division brought in \$70 million last year. Barley tea, however, remains a more common offering.

Suh's obsession with the mild-tasting drink may have started in the 1960s. While traveling overseas on business to places such as Japan and southeast Asia, Suh was impressed by the teas he drank. They were often painstakingly brewed and beautifully served according to the traditions of the country. He lamented that he had nothing better than bitter coffee to offer guests in South Korea, which was still impoverished following the Korean War. "He realized that Korean green-tea history is over 1,000 years old," says his son, Suh Kyung-Bae. During the Japanese colonization and then the war, he says, "We forgot about tea, because it wasn't a necessary food, like rice."

In the early 1980s the elder Suh set out to revive this lost heritage. He began purchasing land in the southwestern part of the Korean peninsula and on Cheju, and he planted young tea plants. He often traveled to the fields and took pains to learn about cultivation and how the leaves were collected, cleaned and roasted to enhance a tea's flavor. Soon the plants were finding their way into his skin-care lines.

The story is a compelling part of the Amorepacific sales pitch, says Marc Shin, head of Amorepacific's U.S. division. That's especially so in the U.S., where the company is targeting wealthy customers who want not just a luxury product but a story to go with it. "There are too many fake stories and marketing gimmicks out there," says Shin, "but ours is the real story."