

## Pacific Quest

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

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.

Behind the Zen-like serenity lies the seething ambition of the 43-year-old Suh, grandson of Amorepacific's founder. 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. The Seoul outfit rang up \$1.3 billion in sales last year, up 9% from 2004. Profit rose 11% to \$161.5 million. In the past year Amorepacific's share price has jumped 41% on the Korean exchange.

That's helped make Suh one of South Korea's wealthiest executives, at \$950 million. Intensely private, he lives a stone's throw from his office so that he can maximize his time at work.

The problem and the opportunity for Amorepacific is that it makes 90% of its sales in its saturated home market. Suh is mounting a bold push overseas, targeting the U.S., Asia and France. There are no firm 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 seeing the 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 upscale department stores such as Bergdorf Goodman and Neiman Marcus. It plays up its use of Korean green tea, red ginseng and bamboo sap, as well as the nanotechnology behind products designed to prevent dryness or smooth out wrinkles. For example, it sells a green-tea-infused skin-renewal cream

that's protected by six patents and fetches \$400 for a 1.7-ounce jar. "As wellness trends like yoga, soy and green tea have become popular, there's been an increased awareness of the health benefits of the Eastern lifestyle, and the personal-care market is following that trend," says Olessa Pindak, beauty editor at Natural Health magazine.

In China the company is riding on the sudden appeal of all things Korean throughout East Asia. In France it's targeting consumers of high-end fragrances. Amorepacific's goal: breaking into the ranks of the world's top ten cosmetics companies within ten years. But that will be a challenge. *wwdBeautyBiz*, a trade publication, ranks it 25th in revenue in the cosmetics industry.

Amorepacific's origin mirrors Est?e Lauder's. Living in a farming village in what is now North Korea, Suh's grandmother, Yun Dok-Jeong, started making camellia-based hair oils and creams as a sideline. As a 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. As early as high school he began to contemplate following his father's path, while his older brother and four sisters took little interest in the family business.

Returning home after earning an M.B.A. from Cornell, he worked as a manager at an Amorepacific cosmetics plant near Seoul. He 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. The company now had an insurer, a baseball team and some two dozen other businesses, and was losing its focus on cosmetics. "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 core 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 "talked about what we would do if we could start over from the beginning," recalls Suh. They chose to slash the extraneous units. "Thanks to the strike, we changed our whole mind-set." In early 1997 Suh succeeded his father and once again set the company's sights overseas, later renaming the company Amore-pacific, incorporating the name of an old brand, Amore.

Amorepacific's earlier attempts to go global didn't work out. In the early 1990s, in one case, it entered France but found that the "Made in Korea" labels on its imported lotions and creams turned off French women. "We didn't know how to sell to a French woman," says Suh. "We just didn't have the 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 a French designer and poaching a 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 to nearly double 2005 European sales of \$47 million.

In the U.S., Suh is sticking to a small segment--the superluxury customer. "We believe we are the company that can contribute another approach to beauty there." And it appears to be hitting the market at the right time. Personal-care brands that promote wellness, tout natural ingredients or play up their spa-inspired origins garnered \$84 million in sales last year, a rise of 22% over the previous year and twice the sales of 2002, according to NPD Group. Such brands often have an Asian flavor.

Amorepacific's attraction, says Ed Burstell, a senior vice president at Bergdorf Goodman, is that it's "part of this unique, Asian beauty culture. They've taken those indigenous botanicals and melded them with technology." Bergdorf began selling Amorepacific skin-care toners and creams in 2003. As of the end of March Neiman Marcus carried Amorepacific lines in 14 of its department stores and plans to add them in 9 more by the end of the year.

Still, U.S. sales were just \$9.3 million last year. For now Amorepacific spends little on advertising in the U.S., instead relying on the occasional story in fashion and shopping

magazines such as W and Lucky. It also counts on customers drawn to the SoHo spa for massage treatments and facials to generate word-of-mouth.

This isn't going to put Amorepacific in the cosmetics top ten. For that Suh needs big numbers in rapidly growing China. The company jumped into the country full-force in 2002 with Laneige, one of its popular skin-care brands back home. The target: women willing to pay \$30 a jar at Shanghai department stores instead of \$2 for a Chinese offering. "It may seem expensive," says Suh, "but young Chinese ladies can afford this." The company's skin-care lines are now sold at 100 department stores around the country. In Hong Kong a dozen high-end shops carry the lotions and creams. But the competition is intensifying; the \$5.8 billion (sales) Japanese rival Shiseido is also expanding quickly on the mainland.

Amorepacific also plans to open its first two stores in Japan this year, taking the battle to Shiseido's home base. For Suh, there's no relaxing at the spa anytime soon.

#### Not Just For Drinking

Red ginseng, bamboo sap and green-tea extracts are key ingredients of many of Amorepacific's expensive skin creams. South Korea's biggest 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 for 52 years, 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 the company operates farms on Cheju, a volcanic island off the southern coast where temperatures rarely dip below freezing and the soil is rich in nutrients. Amorepacific uses nearly every part of the plant--leaves (only young ones), stem and seed oil.

If Suh might have been hard-pressed to prove the dermatologic benefits of tea extracts (which include antioxidants such as polyphenols and catechins), he instinctively understood the marketing value. Over the centuries the cultivation, brewing and serving of tea in Asia has accumulated a mystique.

Early in his career, Suh 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 installed 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.

All this is part of the Amorepacific sales pitch, especially 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 marketing gimmicks out there," says Marc Shin, head of Amorepacific's U.S. division, "but ours is the real story."