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Singapore-based distribution company Luxasia's ceo Wolfgang Baier on how he sees Asia's digital and brick-and-mortar retail landscape evolving

How do you see the market in Asia developing?

Asia Pacific makes up 51% of global beauty sales and is growing more across all categories compared to the rest of the world. The increase of the middle class and the channel shift in consumer preferences from mass to premium are driving growth. But it is a difficult market, with complex regulations and a very fragmented consumer landscape, and it needs a very localized approach.

Has this complexity increased the cost of doing business in Asia?

A major challenge is complex regulations, which change all the time and sometimes without warning. This is an area where you need a partner. Then you need to look at retail networks—which types of stores work for which product. It has become more expensive because you need to distribute much more widely. Previously it was about the top-three department stores in each large city, but now it is about department stores, chain stores, brand boutiques and online platforms—and online selling in Asia is very fragmented. Costs have gone up because you need to be around the consumer. Marketing is more expensive as more brands are competing for consumer attention, and supply chain is more expensive as you need to be much broader. You also need talent to supervise the different channels and the cost of talent acquisition has gone up significantly in Asia. We have put a big focus on CRM and understanding the consumer and have the data so we can tailor the message, as if you go too broadly the cost increases.

How do you see retail developing?

We started our digital transformation three years ago. We invested a lot in digital and after analyzing trends and data, our conclusion is that retail is alive and thriving in Asia Pacific. Brick-and-mortar is the primary channel where people purchase beauty in the region. In China, for some brands, online can represent up to 40% of business. But outside China the most is maybe 20% to 25%, and for the most part it is between 5% and 10%. This means 90% of the business is still offline, and that means you need to invest much more in experiences. Asian consumers want an experience because there is so much on offer that they are overwhelmed. We do 200 to 300 pop-ups a year. You need to invest in grabbing consumer attention with things like engraving or massages.

How important is price**?**

Our big theme is value, because price transparency is there, and people can go online and find out prices on discount websites or elsewhere. We need to bring value to people. We now have more than one million luxury consumers that we can data mine. We have equipped all our pos staff with a tablet to collect data on what consumers buy and why they buy. Then we can analyze the value we can give to consumers, such as offering a special edition. We are trying this more than promotions, as they are not sustainable in the long term.

What do you see as the maturation point for e-commerce in Asia?

Millennials in Asia Pacific spend almost three hours a day on mobile phones and 97 minutes of that is on social media and online shopping. Social commerce is now exploding. In China, social commerce is predicted to have a 31% share [of the online retail market] in 2020. And 70% of Chinese Gen Z prefer to buy directly via social media than from other channels. So KOLs [Key Opinion Leaders] will continue to be extremely important and online will be a massive growth area for all of Asia. But it's a very fragmented market. In China alone there is Alibaba, JD, The Little Red Book, WeChat, and a lot more in social media; then in Southeast Asia there are so many players. We are investing not only to be on top of online, but also to be on top of social. But 90% of the business is still in retail excellence, so it is a balancing act.

How can you manage the fluid aspect of social commerce given the cyclical nature of KOL popularity and certain digital platforms?

We have 50 e-commerce and digital experts across our markets, and we sell to over 170 online marketplaces and e-stores. We have built the software, the tech platform and can bring in the product, steer the pricing and steer the supply to all of those platforms. This is an area where you really need a partner. Social commerce goes back to localization. You need to understand who the KOLs are. Once you understand that it becomes clear how to set up the supply chain and the overall selling. Very often we work with influencers to give the recommendation and if there is a purchase it goes back to our back office, meaning it is not their shop, but our shop, so you take out that complexity.

What is the rationale behind your launch of new retail concepts?

We want to expand retail formats and pilots. We have come up with different retail formats that work in each market. We have launched [these concepts] in four or five countries. In Hong Kong, we launched a skincare concept store called SkinSmart, based on demand for anti-pollution, stress relief and face masks. In the Philippines, we piloted Freyja, which is connected to a very socially driven environment and is about young brands. In Malaysia, we started Parfums & Beaute, which is focused on prestige fragrance. Three years ago, it was more about having one format and rolling it out everywhere, but the market is so localized, and the demand and those niches are developing very differently. You need to find something different from the big approach that sells everything—you need to go into niches and go in deep. Then give consumers the deep experience, so they feel it is tailored to them. We are trying to do mass customization.

How is your idea to become a 'market strategist' in Asia progressing?

We have grown e-commerce revenues by 10 times since the end of 2016. Greater China is now 30% of our business and in the next two to three years we predict it will account for 50%. We added five countries—India, Sri Lanka, Cambodia, Australia and New Zealand. We are progressing well, but still have a long way to go.