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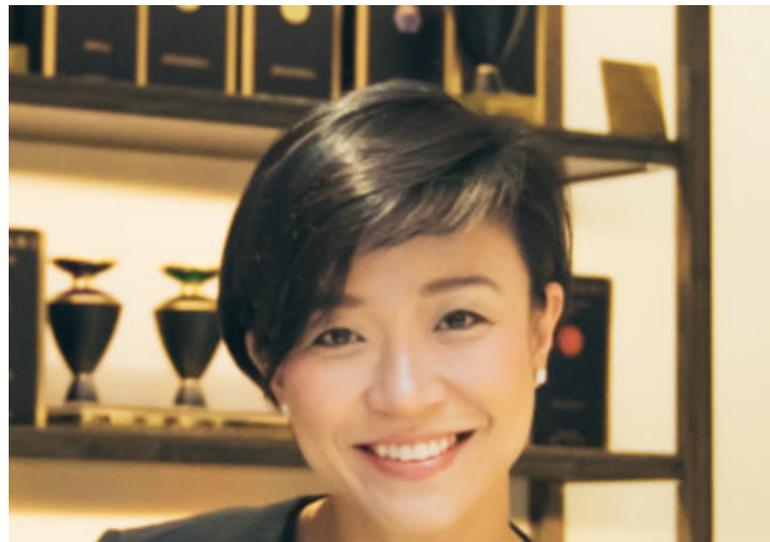
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Industry Talks: Luxasia regional managing director for Singapore, Malaysia, Thailand and Vietnam Karen Ong

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Luxasia regional managing director for Singapore, Malaysia, Thailand and Vietnam Karen Ong

Esentials, the retail concept for niche beauty brands owned by Asian distribution company Luxasia Group, has seen its online business grow to 60% of sales in just four years. Esentials now operates three boutiques in Singapore selling more than 60 luxury niche beauty brands, has built a strong e-commerce business and plans to expand the concept to new markets. Luxasia regional managing director for Singapore, Malaysia, Thailand and Vietnam Karen Ong tells BW Confidential about how the

Escentials brand made the transition to omnichannel player and discusses the opportunities and challenges of digital transformation

How has Escentials managed to shift 60% of its sales online in just four years?

The transformation did not happen overnight. It is in line with the wider transformation of the group, which started in 2016. Two things come to mind when we think about how we achieved 60% of sales online in four years. One is that we already had a brick-and-mortar business that was very stable, and in 2017, as part of the larger transformation, we launched Escentials.com, with the purpose of extending our retail brand to have an O2O offering, rather than just a store. But back then our e-commerce operation was still very rudimentary and done in a start-up fashion – for example we were doing the pick-and-pack from the store. Then we introduced CRM in 2018, so we harnessed and started to mine the database that we had from the store and sent very targeted messaging to bring consumers back to the store. There was a lot of conversations about the consumer journey and how to have targeted communication with them, so that generated a lot more following online. And then in 2019, the online business became substantial, so we moved the pick-and-pack to a warehouse. This meant we had a consolidated inventory for the store and for online, and we did that just in time – just before 2020 when COVID hit and stores were closed. All this is not the glamorous side of omni channel and digital transformation, but it is these fundamental processes that enable the big changes.

The second thing that made this change happen is the people – we have a group of eight women -six nationalities – who have overseen the process from the beginning to the end, from choosing brand assortment, running the store, running the e-commerce, logistics, the CRM, the marketing online and offline, to having seamless communication. We really learned how to be omnichannel.

There was a lot of education on mindset change. For example, at the beginning, the retail staff were not very keen to move consumers online because it seemed like they were giving away sales and giving away their commissions. There was a lot of change in fundamental processes on how we build incentive schemes, how to link O2O so that even if the consumer buys online it links back to who is servicing the person on the ground.

[Online development] was accelerated by COVID, but now we truly have an O2O business and from a consumer standpoint the experience is seamless, whether it is in the store or online.

Is the increase in online sales incremental sales or a shift from offline to online?

The size of the pie has grown – the online piece has grown as well, so there has not been cannibalization with the online piece taking some of the offline piece.

To me it is not a shift online to make more money; basically we need to serve consumers where they are – and if you are not online, your consumer will go somewhere else.

It also helped that we opened the third store in 2019, which allowed us to have more room for more brands.

How do you see the 60:40 online/offline sales split evolving?

Currently at 60:40, online is bigger than offline, but I think that is particular to this year because there were parts of the year when the store was not open. Overall, it will stabilize at about 50:50 in the coming years. We see that consumers who learn to shop online are now staying online, so it will continue to be an important part of the business. Also, with the endless aisle, more brands are now more open to working with us just online if we don't have space to feature them in the store in a certain way. So brands too are changing their mindset and that will also keep the online business growing.

However, for beauty the store will always be the heart of [of the business] because that is where you first smell and where you first touch a product. This became so obvious to us when in the last few months we had safety measures in place so we couldn't use testers and consumers couldn't smell or touch and the experience in the store became so sterile. Because of that, offline will always remain an important part of the beauty business, and it will always be about the experience, the discovery, the engagement.

How has the growth of your online business changed your assortment?

We have always had a very intimate relationship with our consumer and that drives our assortment. But now with online we are able to bring in a lot more brands because we're not confined by physical space constraints. Online has given us a bit more flexibility in terms of the endless aisle – instead of being limited to three of the top fragrances or 10 shades of lipstick, we can now launch 10 in the store and add another 10 online.

We can bring in more cult brands that are typically more digital friendly – some of the brands that we carry [in-store] are heritage brands and may not be as appealing to the digital community. So online has allowed us to be more diverse and given us a more interesting portfolio. With our CRM we are able to track whether consumers buy online or offline and we have a lot more analytics that help us make decisions on assortment.

How does the basket size differ between your in-store and online business?

In fact, post COVID lockdown, the basket size has grown both online and offline, as people want to buy more, but buy less frequently. People are also willing to try new things as they are stuck at home and they want to spoil themselves a little bit more. For example, they are quite happy to try a new skincare product because they are not going out to do facials anymore, or buy more candles because, they are at home all day. All this has added to the basket size both online and offline.

Consumer expectations are particularly high when it comes to online sales in terms of delivery and convenience. How can you meet these expectations and what do you see as the key challenges to building online sales?

Basically, it is all about one word: Integration. It is not about having a separate online business, but how you integrate online into your business. Wolfgang [Wolfgang Baier Luxasia Group ceo] says we should be asking are we omni-natives, does it come as second nature? If we are still thinking about just the store we have not achieved our transformation goal. And this is at every level, from the retail staff, choosing assortment, people's mindset, systems and simple things like inventory management and demand forecasting. This is the foundation, and we need to get these processes right. Consumers are moving faster – the business is not yet

omni-native, but the consumer is. They expect to be able to use any payment gateway; it is not acceptable for them to have an item online and not have it in-store, so how do you make sure the data flows online/ offline? Consumers expect what they take away from your store to be delivered to them in the same way, so how do you make sure that unboxing experience is the same when it is done in a warehouse environment as when you package it in the store? There is a lot of integration work – if you see it as a completely separate business you will not be able to scale up online, and a lot of the work has to be done at the very foundation level.

Would you consider launching Escentials on third-party platforms?

This is a constant debate we have among ourselves. Some of us some of us would say no as Escentials is a crown jewel, and some of us are more pragmatic to say we need to go where the consumers are. Personally, I would think eventually we would have to consider it. Today there are no clear lines between what is luxury and what is not. And if the consumer finds it more convenient to pay \$500 for a fragrance and at the same time also buy a \$10 gadget for the kitchen on the same platform, that is their prerogative.

However, brand image, positioning and luxury execution will always be important for Escentials, and how we present ourselves on a platform is probably the big question here. But we won't do this and until we can figure that out and protect the consumer experience

Will you look to open more brick-and-mortar stores?

Initially the answer was no, as three stores are already enough for a small country like Singapore. But if the right opportunity arises, I would consider it, especially as there may be locations that we probably wouldn't have been able to get a few years ago.

How do you see the Escentials business evolving over the next few years? Do you plan to expand beyond Singapore to make it a regional retail brand?

Escentials should really own and be the authority for niche, cult beauty. We definitely want to expand beyond Singapore. I think we could bring a very different flavor to the beauty retail scene in surrounding Southeast Asian markets, such as Malaysia, Thailand, Indonesia and Vietnam. We also have interest from India, as there is a large luxury consumer base there. It took us this long for Escentials to go from one incubator store to what it is today, but the next phase of expansion will be much faster. In the next three or four years, it will be in more markets than just Singapore, and within Singapore it will be the foremost authority on niche beauty.

We have also talked about making Escentials.com cross-border in what seems like the easiest next step. But then again, it is not so easy because [the products are] dangerous goods, they are very heavy, the potential for breakage is high and the cost of the product is expensive. It is easy to turn on the shipment to Malaysia or Vietnam for example, but to get the product there in a fashion that the consumer expects is not so simple. It is very important to us that we get it right and the consumer has the same Escentials experience that they would expect and have in Singapore.