Executive Insights

Medical Aesthetics in Southeast Asia — Attractive but Risky

Medical aesthetics clinics are trending in Southeast Asia, with exposure to the rising middle-class consumer providing a fertile area for private equity investment. L.E.K. Consulting has seen several deals in Thailand, Singapore, Malaysia, Indonesia and the Philippines.

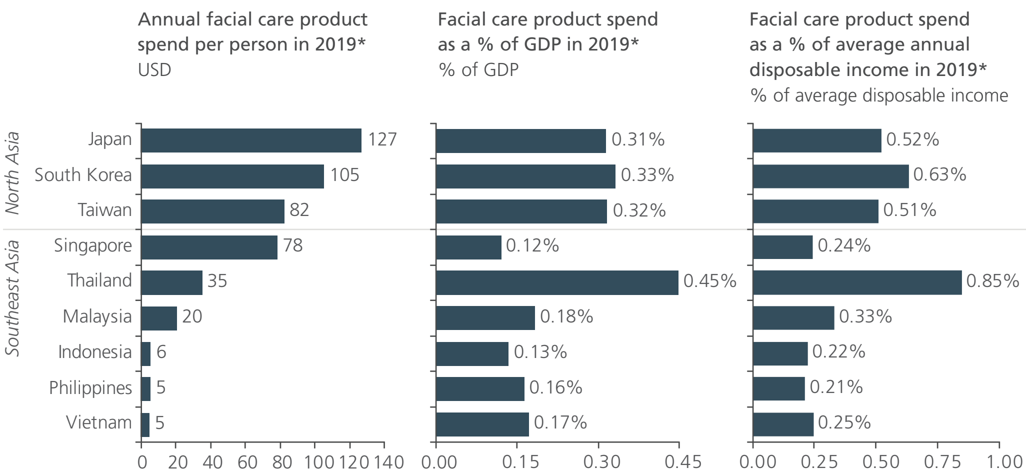
And why not? The growth outlook for the health and wellness industry appears robust. Expenditure on skincare in most parts of Southeast Asia — with the exception of Thailand, which is an established leader in this space — is nascent relative to more developed parts of Asia.

Like all consumer spend categories, medical aesthetics have not been immune to COVID-19, with lockdowns adversely affecting traffic to stores and economic malaise reducing willingness to spend. In fact the pandemic has reinforced consumer focus on wellness. We are seeing categories like skincare benefiting from less expenditure on makeup.

The setup of medical aesthetics outlets makes them more amenable to deal with social distancing in the post-lockdown world than most retail business models. As consumers readjust to socialising post COVID-19, we expect a reasonably robust bounce back in beauty-related spend. However aesthetics clinics will need to upgrade their sanitation processes to provide both peace of mind to clients and also avoid in-store infections. Note: we will analyse the speed and shape of COVID-19 recovery in subsequent Executive Insights.

With economic growth on the longer run horizon, significant uplift should be expected not only from rising incomes but also from an increasing proportion of that income spent on aesthetics (see Figure 1).

Figure 1
Facial care spend in Southeast Asia



Note: *Calculated using Facial care retail value RSP, GDP, and disposable income in USD (constant 2019 prices and fixed 2019 exchange rates);
Source: Euromonitor, L.E.K. research and analysis

Medical Aesthetics in Southeast Asia — Attractive but Risky was written by **Manas Tamotia**, Partner, in L.E.K. Consulting's Southeast Asia practice. Manas is based in Singapore.

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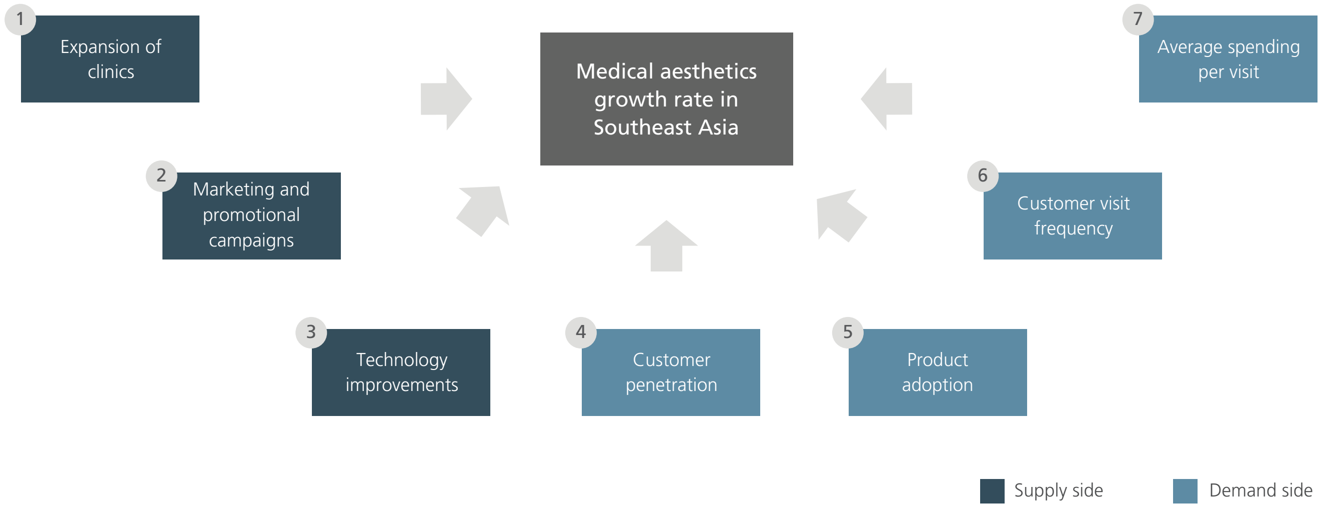
Figure 2
Key growth drivers of medical aesthetics market value



Source: L.E.K. analysis

In our experience, a number of factors, both demand and supply related, drive growth in the medical aesthetics sector. On the supply side, greater availability, awareness and suitability of medical aesthetics can drive growth (see Figure 2). Availability stems from the addition of clinics and outlets that are nearby and accessible to potential customers. Greater spend on marketing and customer education by these additional clinics then also drives greater usage. Similarly, product and procedure innovations also influence market growth.

Increased acceptance of aesthetics procedures amongst the various target segments, more frequent usage and the move towards higher spend are key demand-side drivers of market growth (see Figure 2). For example, in Thailand, the industry not only has been successful in driving penetration not only amongst the various female segments, but also has made progress in attracting 18-35-year-old men to aesthetics clinics.

Investment in the sector, however, can be tricky. Essentially, any doctor can buy some relevant equipment to start a skincare clinic, providing little of the much-desired "moat" That would protect investors and consumers against misplaced trust in fraudulent enterprises.

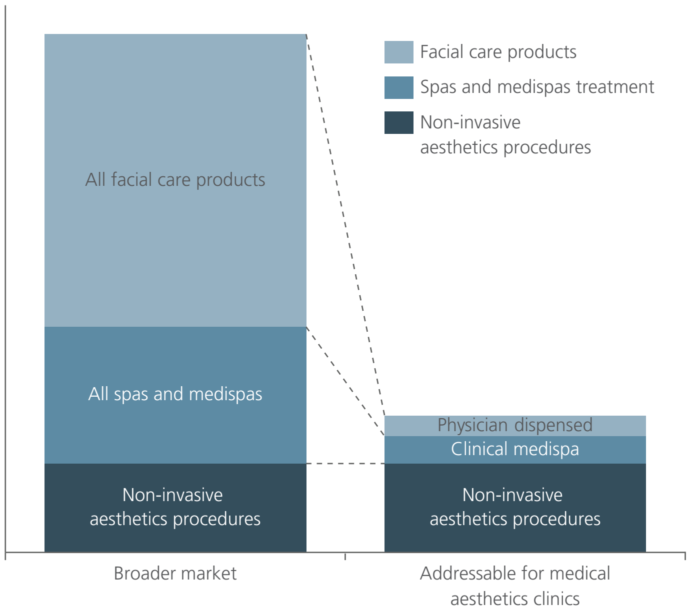
PE investors should be aware of three key risks associated with this sector:

1. Large number of competitors

The business of aesthetics clinics is highly competitive: On one end, you have the surgical solutions offered by plastics surgeons. On the other end are spas and beauticians offering slimming therapies or acne treatments. Interspersed with these are general practitioners and dermatologists. Products, which clinics often regard as an important revenue contributor, face competition from consumers who otherwise turn to the wellness and skincare products of pharmaceutical companies and all varieties manufacturers.

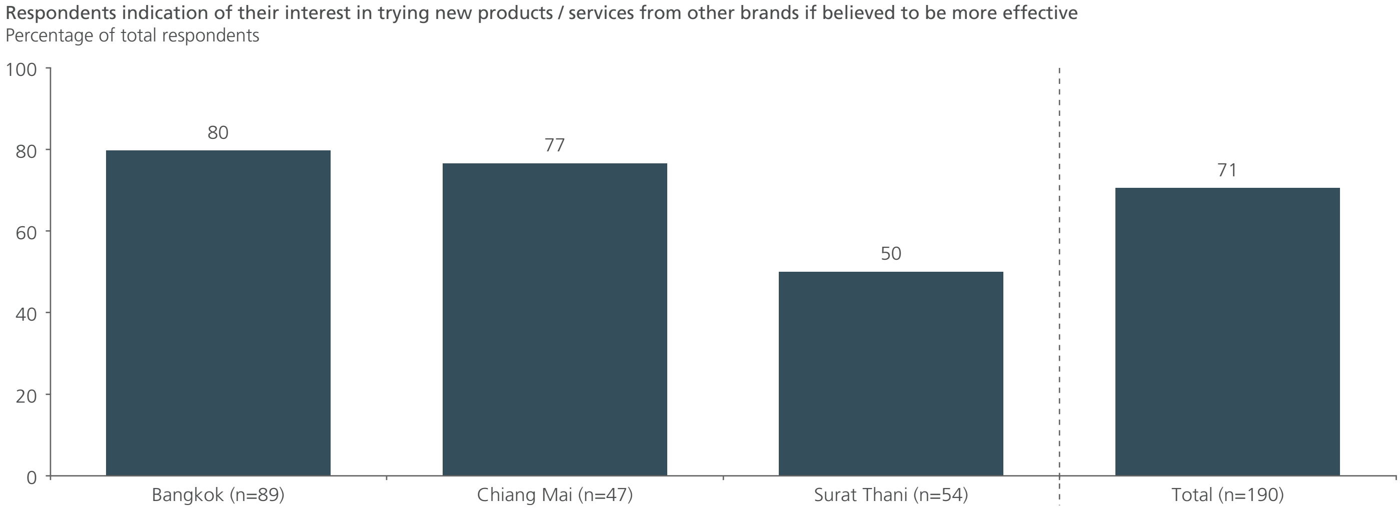
In fact, the addressable market for a non-surgical medical aesthetics clinic (defined as a service provider supervised by a qualified doctor or clinician) is about 25% of the total spend on relevant procedures and products (see Figure 3).

Figure 3
Relative market size of non-surgical skincare clinics and products — Singapore*



Note: *Indicative
Source: L.E.K. research and analysis

Figure 4
Respondents indication of their interest in trying new products / services



Source: L.E.K. survey of Thai consumers

2. No or few barriers to entry

The highly competitive situation in Southeast Asia exists because there are few barriers to entry. It is not a particularly capex-intensive business, nor is it possible to sustain differentiated products or services for long — another new procedure is always ready to out-innovate yours. In a survey of Thai consumers across three cities, we found that the majority of respondents are willing to switch to other brands if they are convinced that the products or services offered by other operators are superior (see figure 4).

The main reason for brand switching is uncertainty. Consumers wonder whether the products and services they use currently are the best for their skin or provide the best value.

3. Amplified exposure to economic slowdown

Another feature we have discovered in our extensive work in this space across Southeast Asia is shifting consumer behavior. During periods of economic uncertainty, consumers significantly and adversely change their approach to aesthetics expenditure. The same Thai survey described above found that over 70% of respondents in Bangkok planned to decrease expenditure on aesthetics services — often significantly, with the vast majority planning to decrease spending by >5% — in the face of a tough economic environment. Hence, timing the consumer cycle could be make-or-break for a PE investment.

So how does a PE investor mitigate these risks?

- **Refuse to fear competition.** Competition is a double-edged sword. Although competition in a mature market is about sharing the pie, in a more nascent market such as the Philippines or Vietnam, competition actually expands the pie as a supply-side growth driver.
- **Remember that reputation is key.** In our research across several markets, two things are paramount in consumers' selection criteria: the reputation of the provider and the quality of doctors and products. Therefore, cultivating and maintaining an impeccable image to represent the brand, its doctors and the products is critical to success.
- **Add to your footprint.** By understanding saturation, clinics can plan for growth and expansion of their footprint even in economically challenging times. This requires careful analysis of both demand and supply conditions to identify high-potential catchments. High-growth markets often require the provider to go outside tier-one cities and into suburbs and smaller tier-two tier three towns. Although aggressive addition of new outlets risks cannibalization, a clinic's growth can mitigate slowdown in like-for-like sales, defend market position and expand the overall pie. In more mature markets, operators should seriously consider building a presence in overseas markets to develop new growth streams.
- **Innovate products for current and new customers.** Constant innovation in the form of new procedures and products will drive customer traffic. Developing new products for new customer segments (e.g., men) can also diversify your income stream.

Given their growth profile, aesthetics clinics can be a high-potential investment. Nevertheless, significant risks abound. Careful planning, including the considerations mentioned here, is required in the pre-deal diligence stage.

About the Authors

Manas Tamotia, Partner

Manas Tamotia is a Partner in L.E.K. Consulting's Southeast Asia practice and has led several M&A and strategy projects in the beauty space across Southeast Asia. Overall as a firm, L.E.K. has deep expertise in the beauty products and services space globally, including in trend setting Asian markets such as Korea, Japan and Thailand.

About L.E.K. Consulting

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