

MENTHOLATUM

Rohto's Acquisition and Beyond



MENTHOLATUM

Rohto's Acquisition and Beyond



© 2020 Mentholatum

All rights reserved. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical means, without the prior permission of the Mentholatum, except in the case of brief quotations embodied in reviews and other noncommercial uses permitted by copyright law.

Table of Contents

PREFACE	I
INTRODUCTION	II
CHAPTER 1: ACQUIRING MENTHOLATUM	1
Rohto's Business in Japan	
Mentholatum – Business Status Before Acquisition	
The Acquisition	
CHAPTER 2: BUILDING THE FOUNDATION (1988 – 1998)	5
Overview	
Market Expansion	
<i>PT Rohto Laboratories Indonesia</i>	
<i>RM Vietnam</i>	
Improving Factories and Strengthening R & D	
Introducing New Brands and Products	
<i>China and Hong Kong</i>	
<i>North America</i>	
<i>Europe</i>	
<i>Other markets</i>	
Summary	
CHAPTER 3: EVOLUTION AND GROWTH (1998 – 2008)	20
Introduction and Development of New Products	
<i>Softlips and Lip care</i>	
<i>Patch</i>	
<i>Rohto Eye Drops</i>	
<i>Sunplay</i>	
<i>Acnes</i>	
<i>Mentholatum Men's</i>	
<i>Hadalabo</i>	
Development Through Brand Acquisition	
<i>Oxy</i>	
<i>Phisoderm</i>	
<i>Selsun</i>	
<i>Alpha Keri</i>	
Summary	

CHAPTER 4: GLOBAL PRESENCE (2008 – 2019)	38
Growth of Brand Business	
<i>Hadalabo</i>	
<i>Rohto Eye Drops</i>	
<i>Oxy</i>	
<i>GSK and non-compete clause</i>	
Lip Care Brands	
<i>Softlips</i>	
<i>Chu-lip</i>	
<i>Summary</i>	
Patch/Topical Analgesics	
Sun Care Brands	
<i>Sunplay and Skin Aqua</i>	
<i>Dax Sun and Hadalabo Toyko Sun</i>	
Acnes	
Mentholatum Men's	
Other Acquired Brands	
<i>Phisoderm/Alpha-Keri/ Selsun</i>	
<i>Natural Instincts</i>	
Newly Introduced Brands	
<i>Derm accept</i>	
<i>50 Megumi</i>	
<i>Others</i>	
Asian Business	
<i>Expansion of the MCL factory</i>	
Dax Acquisition – the Expansion of the Cosmetics Business	
<i>Development of the Russian Market</i>	
Summary	
CHAPTER 5: IMPACT OF THE ACQUISITION	68
CHAPTER 6: FROM THE PAST TOWARD THE FUTURE	71
Celebrations	
Business Targets	
AFTERWARD	74
ACKNOWLEDGEMENTS	75
REFERENCES	76
<i>Executives</i>	
<i>Mentholatum's Offices and Factories</i>	
<i>Photos</i>	

Preface

The book, *Amazing Mentholatum* published in 2005, was authored by Alex Taylor, a great-grandson of the founder A. A. Hyde. This important book details episodes of the founding and naming of the Mentholatum Company and describes its development and activities, chronologically through 1955. With many photographs and advertising illustrations, it describes Mentholatum products that have been used by many people in the U.S. and around the world. It focuses specifically on Mentholatum Ointment which was an all-round favorite remedy for minor burns, abrasions, skin injuries, insect bites, throat irritation, and coughing.

This book continues the story of the Mentholatum Company. It describes the history of the company, specifically its business development and expansion from its acquisition by Rohto Pharmaceutical Company in 1988 to present day. Mentholatum experienced rapid growth during this 30-year period, resulting in nearly 14 times as much in sales volume from 1988 to 2018. Typically, acquired companies and their brands are divided and

sold or forced into dissolution. It appears that the level of Mentholatum's growth is rare.

Rohto not only acquired the Mentholatum Company, but it also utilized this acquisition to transform its OTC-centered business model to a cosmetic and skincare-centered model. This shift succeeded in creating rapid growth. Answering questions such as "what was the driving force of this success?", "how did it grow?" and "what actually happened?" are answered in this book.

This book does not simply compose chronological records, regarding what happened, when and how it happened, or what new product was released, but rather it explains the factors concerning when, why, what and how things occurred. It describes what strategies were utilized, what actions were taken, how the company thought, what challenges were faced, and the failures and success stories. It presents the history of how the Mentholatum Company expanded its business globally and achieved its unexpected growth, with many interesting and little-known stories.

Introduction

On May 15, 2019, at the board and shareholders meeting, Masaya Saito, the new president and CEO of Mentholatum, proudly announced the achievement of the highest sales and profits in the company's history. Next to Saito, was the former president and CEO, Akiyoshi Yoshida, who served in that position for 20 years. He was deeply moved when recalling memories of all that had happened over his 53 years with Rohto and the many changes during his tenure with Mentholatum. All the experiences, ups and downs, happy and sad, left Yoshida deep in thought. How was Mentholatum able to grow and become so successful?

Looking at fiscal year 2018/19, the consolidated Mentholatum sales were \$560M USD, and \$566M with royalties. It marked the highest net sales ever, with the Cost of Goods (COG) improving enough to absorb the increased overhead and Advertisement and Promotion (A & P) costs. Operating Income was \$66M USD and its ratio to net sales at 12%, marking the highest ever for both. Amazingly, the net sales had grown nearly 14 times since 1988, when Mentholatum recorded \$41M.

The successes and changes have been dramatic. The exciting business growth and expansion started from the acquisition of Mentholatum by Rohto.

Chapter 1: Acquiring Mentholatum

Rohto's Business in Japan

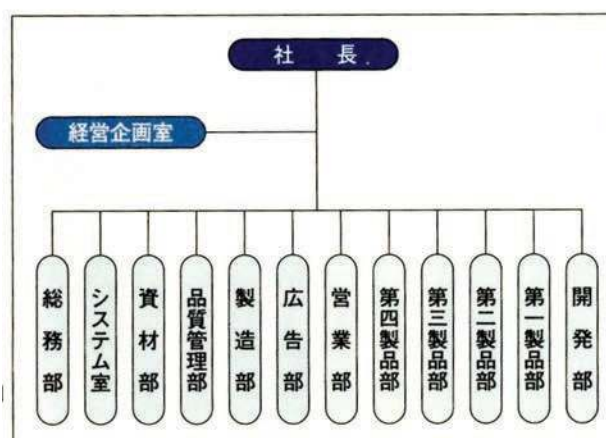
Prior to 1975, Rohto had been focusing on the mass production of several over-the-counter products (OTC), including eye drops and gastrointestinal medicine. The business approach to sales involved wholesaling and connecting with Rohto drug stores members, while investing heavily in TV commercials in A & P to create effective marketing. With this model, Rohto had been enjoying high sales and profits for decades. However, consumer needs began to change and stagnation of sales and profits was slowly becoming a concern. So, the search for new business opportunities began. Eye drops and gastrointestinal medicines were two established pillars of Rohto's business. They were looking for a third. This went on for several years.

The first Mentholatum licensee in Japan was the Omi Kyodai Company. The business centered around Mentholatum Ointment, with the Little Nurse trademark and spread to all corners of Japan. The ointment was widely used for small wounds, burns, and scars and became established as a trusted home remedy. Unfortunately, in 1974, due to a variety of factors, the company went bankrupt. Mentholatum started to look for a new partner. Rohto actively pursued Mentholatum and in 1975, it became



the next licensee. This opened the door for Rohto to expand into the OTC skin care category.

For the next nine years Rohto was dedicated to increasing sales and developing the Mentholatum business in Japan. This was done through a limited introduction of products, new to the Japanese market, including lip balms, Deep Heating Rub, and shaving creams. Nevertheless, Rohto's total sales continued to stagnate. Consumers were constantly looking for new products, but Rohto's business approach did not focus on aggressive and speedy new product development. So, while the company made many efforts to improve the business situation through consultants, management and employee trainings, there was no change.



Rohto's organization map 1987

Finally, in 1987, the president of Rohto, Yasukuni Yamada, decided to adopt a new business

approach and organizational structure called Product Division System. Within a short time, three divisions were created. Number One was responsible for eye drops and GI products and Number Two was responsible for the Mentholatum business. Michio Shingo and Akiyoshi (Aki) Yoshida were appointed, respectively, to head these two divisions. Soon Eye Drops became its own division (Number One) separated from GI (Number Two), changing Mentholatum to Number Three. This new system changed the organization from an independent structure, where each department is responsible only for its own roles (i.e. sales, marketing, advertisement, procurement, production) to a more product-centered structure, with each division being responsible for the top and bottom line. This would include planning, development, marketing, advertisement and promotions, as well as sales and production forecasting. These three new product divisions worked tirelessly to grow the business and bring Rohto out of its sales stagnation. They believed that the planning, development and release of new products was the key.

Each division competed with one another for the best outcomes. Aki set an aggressive target of 6 billion yen or \$48M USD (M60 Plan) for his division and later raised that to 10 billion yen or \$80M USD (M100 Plan). Taking advantage of the established trust and awareness of the Mentholatum brand in Japan, new category products were explored and created. These included acne care (Acnes), sun screen (Sunplay), hand and body skin care (Mentholatum brand name), new lip care (Lip on Lip, Campus Lip, Hosomi, Colored Lip), anti-itch cream (AD cream), new topical analgesics patches (Deep Heat) and bands (Ice Band), and new shaving cream (Mentholatum Shaving Foam Brush). By 1988, new products had worked well for the Mentholatum business in Japan, increasing its sales to \$45M USD. It had become strategically important in Rohto's total sales of \$200M USD.

Mentholatum Business Status Before Acquisition

Since its founding, Mentholatum had established several overseas subsidiary companies. In 1906, Mentholatum Canada opened. An office and factory were opened in the United Kingdom in 1923. Hong Kong opened in 1983, with Australia opening the following year. By 1987, Mentholatum South Africa was established. In addition to these subsidiaries, Mentholatum worked with several licensees and distributors around the world. While small in scale this approach allowed for a broader, worldwide reach of Mentholatum's products (Ointment, Deep Heating Rub) and became part of what made the company unique.



Mentholatum Canada Office
(left - two)



Mentholatum U.K. in Twyford, England
(bottom left)



Mentholatum U.S. Headquarters
(bottom right)



Looking at the financial status of Mentholatum the year before it was acquired by Rohto, the total consolidated sales were \$51M USD, equal to 6.37B yen (\$1 USD = 125 yen). Of that, \$41M was branded sales. U.S. Domestic sales were \$27.8M USD (54.5%), which included original equipment manufacturer (OEM), private label (PL), and several acquired brands. The major brands at this time were Mentholatum Ointment and Deep Heating Rub, which each took in 25% of sales and Mentholatum Lip Balm had 8%. Acquired brands totaled 19% of sale, and included Fletchers Castoria, Medi-Quik, Red Cross, and Caroid Laxative.

The same year, Mentholatum's profits were \$4.3M USD, mostly from overseas business, including royalties from Rohto totaling \$1.4M USD. Of the subsidiaries, the U.K. had the largest sales and profits with Hong Kong, Australia, then Canada following. The U.S. domestic business was in the red due to the lack of success with their OEM/PL company, Niagara Labo, which had been created in 1985. Also, its main factory in Buffalo, New York (established in 1910), was old and lacked the necessary quality and production controls to meet Food and Drug Administration (FDA) regulations (Good Manufacturing Practice – GMP).

Due to these business conditions and the fact that Mentholatum didn't have a successor for the retiring president, George H. Hyde, the company decided to sell. The family wanted the company to be bought by someone who would continue expanding the Mentholatum name and business, while treating their 450 employees well. Rohto was considered to be the best candidate because of its trusted relationship with Mentholatum and its approach to treating its employees like family.

The Acquisition

In late 1987, Mentholatum contacted Rohto about buying the company. President Yamada responded positively and negotiations started. He was concerned if another company bought Mentholatum, Rohto could lose its license and the Mentholatum business in Japan. Yamada realized for Rohto to continue growing Mentholatum, it would have to buy the company.

During negotiations, Mentholatum's representatives spoke of other potential buyers not only in Japan but in western countries as well. This forced the price up. Ultimately, Rohto acquired Mentholatum for \$78M USD. Although many thought it was a gamble and some board members opposed the acquisition, Yamada was determined. He resolutely



Signing Ceremony of the Acquisition

proceeded with the buyout of all 200 shareholders and the company's assets, including all employees.

Looking back, the price was 1.55 times Mentholatum's sales and 18 times the operating income. While this was considered quite expensive at the time, the present day standard of 3 or 4 times yearly sales makes this a comparative bargain. In addition, Rohto was able to develop a new skin care category and an extensive overseas market with Mentholatum. This pivotal decision changed Rohto's future.

At this time Aki, was in charge of Mentholatum as Division Three Director. He remembered President Yamada excitedly telling him of the acquisition, and being encouraged to "keep up the good work." So in July 1988, the official signing ceremony took place in Buffalo, New York with representatives from Rohto including President Yamada, Executive Managing Director Yasuhiro (Hiro) Yamada, and Managing Director Masashi (Yoshi) Yoshida. From Mentholatum, President George H. Hyde, International Operations President, Robert (Bob) Crandall, and President of U.S. Operations, Brooks Cole, also attended. Following the ceremony the acquisition was announced to all employees and made public. Rohto was now the sole shareholder of Mentholatum.

With the relevant tax benefits, Rohto set up Rohto Corporation of America (RCA), to purchase Mentholatum. It invested \$48M (\$24M in cash and \$24M in a bank loan) into RCA. Then RCA borrowed an additional \$32 million in bank loans

at 8% interest. The original plan was for RCA to have the dividends from Mentholatum to pay off the loan. However, at the first board meeting in Osaka, Japan, Mentholatum did not have enough in profits to deliver dividends. This was a shock to Rohto board members. While Mentholatum was making money, the total profits were approximately \$4.3 million before taxes (more than 50% at the time), not high enough to pay off even the interest of the bank loan. Rohto realized their plan had flaws and needed to inject more cash into RCA to repay the bank debt. Eventually RCA and Mentholatum merged (in 1991), eliminating the need to pay dividends and raising Mentholatum's capital to \$114.1M.

Mentholatum's business grew and expanded and in fiscal 2015/16 the accumulation of profits was sufficient enough to deliver a dividend of \$10M to Rohto. This has continued every year since. At the end of February 2019, Mentholatum's profits were more than \$273M, a significant contribution to the Rohto Group's earnings.

The acquisition not only protected and nurtured Rohto's Mentholatum business in Japan, but it also provided a unique opportunity for the development of global markets. At the time of the acquisition, Rohto's overseas contribution was almost zero, with only slight numbers of eye drops exported to Taiwan and Hong Kong, gastrointestinal drugs to Taiwan, and licensed Rohto eye drops to Kimia Farma in Indonesia. It was not attracting much attention and had very little sales. After the acquisition, it would pave the way for the development of overseas markets.

Chapter 2: Building the Foundation

1988 – 1998

Overview

Prior to the acquisition, Rohto's overseas business was limited and foreign sales were minimal. Through the acquisition of the Mentholatum Company, Rohto thought it could utilize existing expertise of Mentholatum employees to expand Rohto's product portfolio globally. Post-acquisition, top executives from Rohto were sent to the United States to run Mentholatum while maintaining existing management.

Hiro, Executive Managing Director of Rohto, and Yoshi, Managing Director, were assigned to operate Mentholatum as Chairman and Vice Chairman. They thought of three directions with which to grow Mentholatum. The first was to expand markets into other countries through the creation of subsidiary companies, by appointing licensees in other countries, and by developing a distribution business. The second, was to update and improve existing factories to meet the rapidly changing GMP which was strictly regulated, as well as strengthening new product development capacity and capability. The third was to expand Mentholatum's existing line with new competitive and appealing products.

Market Expansion

In 1983, before the acquisition, the subsidiary Mentholatum Hong Kong (MHK) opened an office in a small warehouse with Francis Chan as Managing Director. In 1984, Anita Ng was hired as Marketing Director. In 1988, Francis resigned from MHK to emigrate to Canada. Anita, then Deputy Managing Director, took over the reins of MHK and Hay Lee was hired as the Sales and Marketing Director. Soon after the acquisition in 1989, Francis was rehired as Vice President of Mentholatum International Operations in Buffalo. He worked diligently to develop new markets together with Bob, President of International Operations.

During the 1980's, although the Chinese market was predicted to be the biggest consumer market in the world due to its huge population, it was a closed country. The Communist Party made it very difficult for foreign companies to do business for the domestic market. Therefore, Mentholatum thought it was too early to do business domestically. Most foreign companies entered China to build factories seeking abundant, low cost labor. They manufactured their products in China and exported them.

Mentholatum waited for an opportunity to enter the Chinese market, seeking business reaching Chinese consumers. The opportunity came in 1991. MHK, the only subsidiary of Mentholatum in Asia at the time, established the joint venture company, Mentholatum (Zhongshan) Pharmaceutical Co. Ltd. (MZL), with 65:35 ownership

ratio between MHK and two Chinese partners, Guangdong Foreign Trade Corporation and China Foreign Trade Center (Holding) Import & Export Corporation. MHK negotiated full management rights. At the time in China, joint ventures were only allowed if there was at least one local Chinese partner. Also, the Chinese government would not approve any foreign operations unless over fifty percent of its production would be exported and the operation had to be responsible to balance its foreign exchange needs. This joint venture was one of the most valuable decisions made by Mentholatum. In the following years, it became the most significant contribution to the growth of global Mentholatum.

In that same year, Mentholatum Taiwan Limited (MTL) was created as a joint venture with K.H. Tan, the owner of the Taiwan licensee company. Prior to the joint venture, Mentholatum Ointment was a brand leader in the market but sales were stagnant. Mentholatum approached K.H. with the idea. Negotiations finalized with K.H. acquiring a majority (51/49) in equity, while Mentholatum had all the management rights.

In 1993, Mentholatum Mexico was opened. In the late 1980's Mexico was one of the fastest growing markets in Latin America. In 1989, Mentholatum Ointment sales in Mexico were insignificant, so Francis worked with Mentholatum's distributor Smith Kline Beecham (SKB) to launch Termo Rub (Deep Heating). It was positioned as a premium priced brand and was met with good success. This relationship came to a halt when SKB was acquired by Glaxo.

Consumpharma became the new distributor for Termo Rub. The brand continued to perform well but Consumpharma grew too rapidly and ran into cash flow problems. Mentholatum had to find yet another distributor. Hermanos Grisi filled the gap, however they were not keen to introduce and market additional Mentholatum products, and Termo Rub was losing its market share. So a de-



cision was made in 1993 to set up marketing operations through Mentholatum de Mexico S.A. de C.V. (MMX) wholly owned by Mentholatum, using Hermanos Grisi as its distributor. In its initial years MMX experienced high staff turnover and sales languished.

In 1994, with more regional subsidiaries of Mentholatum being planned throughout Asia, MHK changed its name to Mentholatum Asia Pacific (MAP), to better reflect its role as the regional headquarters.

In 1995, Rohto Mentholatum Malaysia Sendirian Berhad (RMM), a wholly owned subsidiary in Selangor, Malaysia was established. Prior to this, Deep Heat Rub and Mentholatum Ointment were very small players managed by a distributor, who was fiscally conservative and unwilling to launch new products.

In Thailand, Deep Heating Rub and Mentholatum Ointment were very small and failing brands. So, in 1996 Rohto Mentholatum Thailand Limited (RMT) was established in Bangkok, Thailand. The partner, in this joint venture was Uthen Tangburanakij, owner of Josephine Cosmetics Thailand. At that time, Thailand had restrictive laws governing foreign ownership of corporations and only Thai nationals were allowed majority ownership. Similar to Taiwan, negotiations finalized with majority shares in favor of Uthen (51/49), and management rights with Mentholatum. Soon after the creation of the joint venture, Lip Ice was launched.

In 1997, Mentholatum built a 50/50 joint venture company Mentholatum Pharmaceutical India (MPIPL) with Universal Medicare Pharmaceuticals Limited in India. At the time, the only brand sold in India was Deep Heat Rub. India was a very price sensitive market with many local low priced substitutes. Deep Heat Rub was brought into India from Mentholatum United Kingdom (MUK) at a high price point. Market research revealed the need to use a mass market pricing strategy, selling in high volume, in order to be successful. Nationwide distribution was bureaucratic. Marketing also was a major challenge, as advertising and

promotions had to be in a minimum of four dialects.

Mentholatum took a medium high pricing strategy for the brand. Originally MPIPL planned to locally manufacture Deep Heat Rub with pre-owned tube filling equipment from MUK to reduce costs. Indian's bureaucratic import and export policies held the machine at the port for months. This delay caused the equipment to rust out and became scrap. MPIPL then had to locate a contract manufacturer for production, which increased the cost of goods. Initial consumer response was lukewarm and repeat purchases were not satisfactory. As a result of the high operating expenses with low sales volumes at MPIPL, the joint venture was dissolved, at great expense, after only two years.



During the 1990's South Korea was a very restrictive market for foreign owned brands and it was almost impossible to repatriate royalties. Mentholatum Lotion (a.k.a. Deep Heat Lotion) was managed by a licensee, Yungjin Pharmaceuticals. Sales were stable, around \$2M USD annually. Fortunately, it was an established brand that enjoyed some brand recognition. Due to very strict foreign currency transfer restrictions, Mentholatum could not get royalties from the licensee back the United States. Instead, when the Mentholatum Worldwide Meeting was held in Beijing, with over 20 executives participating, Yungjin Pharmaceuticals used the royalties to pay for the event. Later in 1997, Yungjin Pharmaceuticals declared bankruptcy.



Mentholatum wanted to stay in South Korea. After several discussions with potential joint venture partners, Francis and Anita concluded the better alternative was to set up Mentholatum's own operations. In 1998, the Mentholatum Korea branch opened in Seoul, South Korea.

During the years of market expansion for Mentholatum, Rohto also wanted to develop its

own overseas market. So, in 1992, Rohto established the International Division and appointed Aki as the first director. Until then, Rohto had a small export section in the sales department, but its activities were minimal. When the International Division was organized, Aki focused the mission of the new division on the support of the overseas Mentholatum business and development of Rohto's direct subsidiary companies in the Asian market. He primarily concentrated these efforts on Southeast Asian countries.

In 1992, new Executive Managing Director, Kunio Yamada and Aki visited Taiwan and Hong Kong to transfer the existing distribution of Rohto's products from third party distributors to Mentholatum's existing subsidiaries. In Hong Kong, the intention to transfer was met without contest and was completed quickly. In Taiwan, however, it took a couple of years due to the long and close business relationship between the distributor and Rohto.

PT Rohto Laboratories Indonesia

In Indonesia, Rohto worked with Kimia Farma, a government owned pharmaceutical company as its licensee of eye drops, Obata Mata Rohto. With the partnership, Kimia Farma had enjoyed steady profits for many years. The sales of the eye drops went well and became number three in the market. This had a significant influence on Kimia Farma's reluctance to return its license to Rohto. Because Kimia Farma was government run, to change the license back to Rohto would require delicate negotiations and perhaps setting up a local company. Fortunately, Aki found an opportunity.

In 1995, while Aki was on the way to work by taxi, he received a phone call from Dr. Biantro Wa-



Dr. Biantro
Wanandi

nandi from the Wanandi Group, an Indonesian conglomerate. Dr. Wanandi wanted to propose a joint venture between Rohto and the Wanandi Group. It would produce intraocular lenses for cataract patients in Indonesia. Dr. Wanandi recognized Rohto as a well-established eye drops company and assumed it was already involved in intraocular lens production and sales. Curiously, because Rohto was only an OTC category business at the time, it had never been involved in intraocular lens production. Dr. Wanandi mentioned one intraocular lens would sell at a very profitable \$100. Also, there were large numbers of cataract patients in Indonesia due to its proximity to the equator and significant exposure to UV rays. Creating the joint venture company could be a major business prospect with the potential to significantly increase revenue.

Aki, who knew Rohto had no knowledge of intraocular lens technology and production, realized setting up the joint venture could mean more than just expansion into another category. He thought the intraocular lens business to be uncertain, but it was a good opportunity to use the political power of the Wanandi Group to negotiate with Kimia Farma. Rohto had been wanting to develop their eye care business in Indonesia by establishing an independent company. This could be the opportunity they were looking for. So Aki got approval from top executives and proceeded to set up the joint venture company PT Rohto Laboratories Indonesia, which became a direct subsidiary of Rohto Japan.

The direction and purpose of the joint venture were sound, but the actual execution did not go smoothly. Rohto recruited Yoshinari Nakasono, to become President of PT Rohto. Nakasono had worked at the Nomura Trading Company (Shosha) and had much experience in Southeast Asia. The intraocular lens production know-how and machines were purchased from a small newly established high-tech company in Tampa, Florida,



Mr. Yoshinari Nakasono

USA called Lenstech. It had been created by experts in the field who worked for large pharmaceutical eye care companies. Technicians from Lenstech set up machines and production lines, transferring their operating technology to the PT Rohto factory. Rohto hired Koji Suzuki as Operations Manager. He was sent to Tampa to learn from Lenstech. There he absorbed the necessary technical procedures of production and managing people. He contributed greatly to the creation and completion of a high-quality production line. In 1996, PT Rohto



IOL Manufacturing



Opening Ceremony of PT Rohto IOL Factory



PT Rohto Factory Building

had an opening ceremony at its factory in Bandon, Indonesia.

Although PT Rohto started its business with the production and sales of intraocular lenses, the company soon realized due to other new competitors in the market, the price dropped dramatically.

Also, while there was obvious need for the product, the number of doctors who could perform the necessary surgery was small. Therefore, it took several years for Nakasono and his staff to establish relationships and secure consistent domestic and export sales.

With the objective of creating a joint venture company completed, Aki and Rohto could continue



Neo Eye 10 Lenses by PT Rohto

their efforts to transfer the license. Through continuous negotiations and relentless efforts by Aki, Nakasono, and Dr. Wanandi, PT Rohto succeeded in transferring the

Rohto eye drops license from Kimia Farma to PT Rohto. Obata Mata Rohto Baru eye drops were successfully launched



in 1997. In the same year Mentholatum Ointment was also launched. In 1999, Mentholatum Lip Ice was added, then Namida Rohto eye drops, Rohto anti-bacterial eye drops,

and Rohto C Cube eye drops came soon after. While PT Rohto was being created, there were also efforts to develop a



market in Vietnam.

RM Vietnam

In the 1980's, Vietnam was underdeveloped and wounds from the Vietnam War remained. In 1986, Vietnam launched a political and economic renewal campaign (Doi Moi) that introduced reforms intended to facilitate the transition from a centralized economy to a socialist-oriented market economy. Doi Moi combined government planning with free-market

incentives. Many foreign investors and companies started to enter the market. This was just before the dawn of Vietnam's open economy.

The consumer healthcare market (OTC and skincare) in Vietnam was undeveloped. So, Aki and Masaya visited Vietnam many times for market research and exploring what it would take to set up a local office and factory. These efforts were endorsed by Rohto's president.

In 1995, Aki and Masaya did market research with Bruno Rossi. Working for Bayer (Bayer Schering Pharma), Mr. Rossi had extensive knowledge in finding market opportunities for OTC products. Rohto's International Division asked him to do market research on Rohto and Mentholatum brands and products for Vietnam. Mr. Rossi produced excellent research and provided several possible marketable categories, brands, and products. Based on his investigation as well as Rohto's analysis by Aki and Masaya, the most significant opportunity seemed to be with Rohto eye drops and several of Mentholatum's products.

At the same time, Aki and Masaya, continued to look for a joint venture partner, location for the factory as well as a possible local office. After discussing several ideas for business categories and products as well as possible partners, they visited several companies. However, they didn't find a suitable company or organization. As a result, in 1996 after finishing all the necessary research, Rohto decided to enter the market as a 100% foreign-owned company. The plan included establishing an office right away and creating a factory within the following three years. Rohto took action to set up a representative office (Rohto Vietnam), to import Rohto's eye drops to sell in the Vietnamese market. Masaya was appointed as general manager of this office.

Nakasono assisted with setting up a local office in Ho Chi Minh City, including hiring staff. Thanks to his recommendations, Rohto Vietnam (RV) hired Nguyen Thi Lan Huong as the Sales Manager. From the beginning her contributions were significant and she played an important role

in increasing sales for the company. RV also recruited some talented marketing managers and a financial manager. They were all brilliant and worked for the company for many years.

Initially, New V Rohto Eye Drops, Rohto Anti-bacterial Eye Drops, Pansiron G (G.I. product), Mentholatum Lip balm, and Deep Heat Rub were imported and sold through the RV office. To develop the eye care market, they approached not only drug stores, but also healthcare channels (e.g. hospitals) to establish strong relationships. These connections helped generate name recognition and trust in the company. In later years, these relationships were useful when intraocular lenses and other products were introduced into the Vietnamese market.

To promote eye drops, heavy advertising and promotions (A & P) using television commercials, rapidly resulted in good sales and increased brand awareness. Rohto covered the marketing expenses for the first couple of years. This initial investment in A & P was required to develop the unknown market from scratch. Rohto eye drops sales ultimately became number one in the eye drops category, increasing both awareness and positive reputation.

Rohto planned to build a factory in the Binh Dong province, outside of Ho Chi Minh City, in

drops line was celebrated at a grand opening ceremony of the factory. Rohto dissolved the original RV business and officially established Rohto Mentholatum Vietnam (RMV), owned solely by Rohto. RMV became a direct subsidiary of Rohto Japan and located its office in the Saigon Trade Center in the center of Ho Chi Minh City. Masaya was appointed as president.

RMV hired many local employees including managers and workers for the office and factory. This contributed to the local economy and helped the company connect to the surrounding community. The factory workers were trained for high-quality production. It went well and they learned the skills and know-how quickly. This contributed to low cost, high-quality products. RMV has continued to grow and establish a solid and trusted reputation as a consumer healthcare company in Vietnam. With Masaya's leadership many new products were introduced from Rohto Japan including Acnes, Sunplay, several lip balms, eye drops, and many others.



First Factory Building



Opening Ceremony of RM Vietnam



RM Vietnam Factory as of 2019

the Vietnam-Singapore industrial park. With a ground-breaking ceremony in 1997, Rohto sent many factory technicians, chemists, production supervisors, and quality assurance/quality control managers to establish a state-of-the-art factory, to meet Vietnamese GMP standards. In March 1999, the completion of the first eye

Improving Factories and Strengthening R & D

In the 1990's, while expanding into international markets and establishing new subsidiaries, Mentholatum needed to improve its existing factories and strengthen its research and laboratory functions.

Mentholatum had factories in both the United States and the United Kingdom. To cope with the



Bron and employees at Twyford Factory



East Kilbride Factory and Office

changes required through the United Kingdom's GMP regulations, Mentholatum U.K. (MUK) had to open a new factory and office. They in-

vestigated the possibility to improve the existing factory, but it proved to be very costly. The factory and office moved from Twyford, Berkshire, England to East Kilbride, Scotland. The managing director, Bron Gorney and his people worked diligently to create a smooth transition to the new facilities. In 1995, a celebration of the opening of the new factory was held in Glasgow, Scotland, with many in attendance including President Yamamda, Hiro, Kunio, Yoshi, Aki, Francis, Anita, Bron, and other executives of Mentholatum. On this occasion many spouses and partners attended as well. It was a memorable celebration which strengthened the connection between Rohto and Mentholatum. Several years later, another project to upgrade the quality and capacity of the factory called "Spring Board" was planned and executed.

In 1997, to comply with the Food and Drug Administration's GMP standards, Mentholatum

United States (MUS) was required to build a new factory and office in Orchard Park, New York, moving from the Buffalo location. MUS also needed to strengthen its research and development functions and activities.

Thanks to the efforts by Dr. Hiroyuki Matsuda,



MUS Office in Buffalo



MUS Headquarters and Factory in Orchard Park



RMRL in Philadelphia

Rohto Mentholatum Research Laboratories was created in Horsham, Pennsylvania in 1997.

Introducing New Brands and Products *China and Hong Kong*

To meet Chinese regulations, Mentholatum was required to export over fifty percent of the production from MZL. It would also be necessary to generate enough foreign currencies to balance the foreign exchange. Snug Denture Cushions was



the only viable export candidate. When MZL built the factory in 1991, it started with Mentholatum Ointment and Snug production lines. Old equipment to produce both products was imported from the U.S. and modified locally. Snug became the lead product manufactured, quickly followed by Lip Ice and Mentholatum Ointment exported to Hong Kong. After two years of product registration, MZL was able to produce and market Mentholatum Ointment for the Chinese domestic market.



Initially, sales of Mentholatum Ointment were not significant in China. MZL needed a competitive and easy-to-introduce product. The management of MZL decided to manufacture and sell Mentholatum lip balms. At that time, Rohto had many new attractive products in the lip care category in Japan. To MZL, manufacturing and selling Mentholatum lip balms was considered a great opportunity. The company had to overcome several difficulties in production including procuring manufacturing machines and product quality issues, to be able to launch Mentholatum Lip Ice in 1992. To take advantage of low-cost labor and materials as well as Rohto Group's formulation technology and marketing skills, MZL introduced Lip Ice to the market priced as a "premium product."

The company faced enormous bureaucratic and infrastructure challenges. China was still a developing country with poor infrastructure and frequent power supply outages. Nationwide product distribution was painfully inefficient. With a very limited advertising and promotional budget, MZL could only concentrate on coastal cities. There was also a major marketing challenge. In China, there was not a lip care category, so the marketing team had to

invest in the development and promotion of the category itself. Although sales were small, Lip Ice was the brand leader in Hong Kong, where it had been introduced prior to the acquisition. MZL leveraged this position and cleverly used film and TV stars as well as music artists as spokespersons. This market strategy worked well and Lip Ice gained high sales.

The approach of using low-cost goods with a high retail price created substantial profits. With such profits, MZL could reinvest in a variety of promotional expenditures, which in turn accelerated the sales of products. After several successful years, along with the easing of Chinese regulatory requirements regarding foreign ownership, Anita was able to negotiate with joint venture partners to relinquish their ownership and MAP finally acquired full ownership control of MZL.

One of the missions of the International Division of Rohto was to expand Rohto's eye drops business overseas. Aki thought it was important to develop the Chinese and Southeast Asian markets first. As eye drops manufacturing is totally different from the production of lip balms and ointment, Aki thought MZL needed a manufacturing partner. In the process of looking for a joint venture partner in China, Francis, Anita, and Aki visited several pharmaceutical companies, hospitals, and universities.

After one such visit, they went to lunch at a local restaurant in Northern China. On the menu, they were surprised to find fried scorpion. The restaurant offered some samples. As they saw what looked like small deep-fried shrimp, they asked the waiter, "is it safe?" He replied, "Yes, Yes, it is safe, very safe...no poison if you don't eat more than ten." So, they tried it. Aki had ten of them! Everyone was afraid of the possible paralyzing effects. Fortunately, everybody arrived back to the hotel safely and later continued their search for partners. They recognized being in a global business provides experiences with the wonders of different cultures.

At the end of their visit, they did not find any suitable partners. They concluded that Mentholatum should build its own production line of eye drops in the MZL factory. Teams from Mentholatum and Rohto planned to use old filling machines from Rohto as a core production system. Many people from different departments of Rohto cooperated and worked hard to complete the project, and in 1996, a new eye drops production line was successfully installed at the first building of MZL.

Registering New V Rohto Eye Drops in China was another challenge. While these eye drops were already being sold in Japan (under the name Rohto V Plus), to get approval from the Chinese regulatory authority, even an OTC product needed to register as a new drug. That meant it would require a clinical trial. It was a high hurdle for OTC products. Rohto did not have any data it could use. So, Shu Won, the MZL Factory Operations Director, the MZL team, Rohto's International Division and the Regulatory Department of Rohto, worked diligently. They conducted a clinical study for New V Rohto Eye Drops in China and applied for registration with all the necessary data.



First Eye Drops Production line in Building 1

Several months later, Dr. Matsuda, Shu, and Aki sat at a table at the Chinese regulatory authority for a “New Drug Evaluation Meeting.” Fortunately, there were only a few questions and they finished the meeting in a friendly atmosphere. New V Rohto Eye



Dr. Matsuda, Shu, and Aki

Drops passed the regulatory process and was approved. It was manufactured and launched in 1996, with the aim to sell mostly in three major cities, Beijing, Shanghai, and Guangzhou.



New V Rohto



Rohto Eye Drops for Children



Rohto Anti-bacterial Eye Drops

Drop was added and anti-bacterial eye drops in 1999. By the end of that year, eye drops sales achieved 3.4 million units. It was an appealing and successful new category business for MZL.

With the success of the Lip Ice and Rohto's eye drops, MZL and MAP grew dramatically. Sales for Mentholatum Hong Kong in 1988/89 were \$3.2M. Ten years later, after the addition of MZL, the combined sales grew to \$21M. It was the highest growth among all of Mentholatum's subsidiaries, including the U.S. Early entry in the Chinese domestic market and starting with profitable lip care and eye drops busi-

nesses were considered the key factors for the success of MZL's growth.

The goal for Rohto was to launch Rohto eye drops not only in the Asian market but in western countries as well. It had been one of Rohto's long-term dreams. It would gradually materialize later.

North America

Mentholatum U.S. made efforts to introduce Rohto's brands and products for use in the U.S. market. However, due to regulatory issues and higher marketing costs, many did not materialize in this first ten years. For example, Rohto's eye drops were the first choice to introduce into the United States. Yet, the use of menthol was considered a significant regulatory risk, since at the time no eye drops in the United States contained menthol. Some product introductions into the U.S. market included Softlips (lip care), Pain Patch, Deep Heating Patch, and Migraine Ice. Among them, Softlips was the most fruitful example.

When Rohto acquired Mentholatum in 1988, the largest of sales in the company were in the U.S. Region (U.S., Canada Mexico, South America), accounting for 66%. The main products were Mentholatum Ointment, Deep Heat Rub and lip balms. Although there were products including shaving



Mentholatum Medicated Lip Balm

cream, oral pain relievers, and laxatives, none of these had significant sales. Rohto had developed and expanded Mentholatum medicated lip balms since it became a licensee in Japan. Thanks to the well-known brand and familiar image of the little nurse mark, it had continually sold well and became the number one lip balm in Japan.

Before the introduction of Softlips, Rohto had developed new lip balms called Campus Lip

in 1979 in Japan. This was in response to emerging consumer demand, especially young users. It appealed to teenagers with its playful images and sweet fruit flavors. Young consumers responded positively and sales went very well. Seeing the success of Campus Lip, one of Rohto's employees had an idea for a new slim body lip balm. So, Rohto's development team decided to combine this idea with a new and different formulation from its conventional petroleum-based lip balms. It was looking for a new and unique texture and feeling.



Mentholatum Campus Lip

It was a challenge, and after much trial and error, the team focused on one formula. While the team had some worries about this new formulation, it decided to move ahead due to the launching schedule. At the same time, the container development team needed to develop a thin, 12mm diameter body. The lip balms would have to move up and down smoothly, in half the volume of Campus Lip. The teams met all requirements and in 1983, Rohto launched Campus Lip Hosomi. With the new texture and slim pencil-like body, it was more user-friendly and fashionable. Teenagers liked the product and sales surpassed those of Campus Lip, justifying all the research, development and marketing efforts.

Hiro, as Executive Managing Director was involved in the development and marketing of Campus Lip Hosomi at Rohto and knew the details of



Mentholatum Campus Hosomi

the product. He thought Hosomi lip balms would appeal to young consumers in the U.S. as well and decided to launch it in 1991, changing

the brand name to Softlips for the U.S. market.

Softlips were manufactured by Rohto's sister company, the Josephine Cosmetic Company in Japan, and exported to the U.S. The launch of Softlips went well and the product was accepted by U.S. consumers. Because of its light texture and fun flavors, it was exceptionally appealing to teenagers. It was exciting to see the sales increase nicely.



MUS expected continuous growth, and while sales did grow, profits were modest due to the high cost of goods.

From 1991 through 1996, MUS continued to import Softlips. Hiro had a dilemma on how to reduce costs. At same that time, Rohto was struggling with high prices and some defect issues with the imported Mentholatum medicated lip balms, the best-selling lip balm in Japan. So, Hiro and Aki discussed how to solve both of these issues. Medicated lip balms exported to Japan was good business for MUS. After reviewing the pros and cons, Mentholatum and Rohto agreed to swap the production of both products.

MUS did not have a specific filling machine for the production of the new lip balm. In 1996, the U.S. planned to buy a new automatic filling machine for Softlips. MUS had a Weckerle filling machine for its regular sized lip balms and looked to the same company for the new machine. Michael Smith, Technical Director of Operations for MUS was sent to Germany to expedite the acquisition with the necessary specifications. This would have been a significant financial investment for the company.

At the same time, Aki tried to find a high quality and low-cost slim tube manufacturer in Japan. The slim sized tube was invented through the cooperative efforts of Rohto's container development team and a plastic molding company, MFV. To have the lip balms move up and down smoothly, with maximum volume, a new mechanism was invented. It was a unique structure and patented for many years.

The MFV Company was one of the tube suppli-

ers for Rohto in Japan. They had a factory in China, providing low-cost plastic containers. Aki negotiated with MFV to import their tubes at a low price. Thanks to the efforts of all those involved, the production started successfully. It reduced the cost of goods dramatically. Moreover, it made Softlips the dominant brand in the U.S., with high sales and profits. With the unique and differentiated shape as well as its light textures, sales of Softlips continued to increase. This was one example of the successful introduction of Rohto's products into the U.S. market.

In 1988, the sales of Mentholatum U.S. consisted of 25% Deep Heat Rub. The topical analgesic business was the core of Mentholatum. After Mentholatum was acquired, several new products from Rohto were investigated. The management team wanted to develop a new product in this category. Mentholatum U.S. and Rohto's International Division discussed the pros and cons of new product ideas. One interesting product was the patch. It could be used over the skin for any part of the body. It was unique, portable, non-greasy, and long-lasting. So, the team thought it was perfect to introduce into the U.S. market for joint and muscle pain on shoulders and back. They wondered why these patches had not been introduced in the U.S. before. Interestingly, there was only one patch on the market, which was made by a Japanese manufacturer (Hisamitsu). It was non-stretchable plaster and did not seem to sell well.

Patch products were developed extensively and widely utilized in Japan. There were two types of patches in the market. One was a gel-type (containing water), called "poultice" or "cataplasm". Another was a dry type (without water), called "plaster." Both products were well developed and commonly used in Japan for joint and muscle pain.

Mentholatum U.S. and Rohto's International Division discussed the reasons why patches were not dominant dosage forms in the U.S. One theory was that western consumers had hairier arms, legs, and bodies than Asian consumers. Once they put the patch on their skin, perhaps it would not stick enough and it might hurt when it was peeled off. Hisamitsu's plaster patch stuck firmly to the

skin, but it was painful when peeled off. Like a hair removal patch! So, Mentholatum's concept for their patch was to have it stick well even on hairy skin without causing pain upon removal, along with being both portable and long-lasting. While a gel-patch was less painful when peeled off, a plaster patch stuck more firmly to the skin.

Before the acquisition of Mentholatum, Rohto's Number 3 Product Division had been developing a new plaster patch for the Japanese market called Rub Pittato, using a non-woven cloth for a back sheet. The non-woven cloth had a stretchable property for the patch and nearly painless during removal. Gel-patches used the non-woven cloth, but plaster patches did not. So, the combination of them (plaster with non-woven cloth) gave not only strong stickiness but less pain when peeling off. At the time, there were no such products even in the Japanese market. Rohto thought that if they could develop this Rub Pittato for Japan, it would be a superior product for the U.S. market as well.

Rohto's Number 3 Product Division worked hard with a local OEM manufacturer, Yoshida Yoshin Do Pharmaceutical Company, to create this new type of plaster patch. They were able to produce the product but the company could not maintain consistent quality and did not have the capacity to produce the necessary quantities. In addition, a Mentholatum inspection revealed the FDA's GMP standard for U.S. market was too big a hurdle for Yoshida Yoshin Do to cope with.

However, Rohto had already announced the new product would be launched. So, to meet the launch date deadline with the amount of units required, all Number 3 Division members worked tirelessly to assist Yoshida Yoshin Do with production. The efforts continued for three days and nights, and although it was difficult, the experience reminded those involved of the positive results of teamwork. Rub Pittato was launched in Japan but disappointingly the sales did not go as well as expected, due to the lack of marketing support.

With the failure of Rub Pittato, a gel-type patch with non-woven cloth instead of plaster, was selected to be introduced into the U.S. market.

Those involved thought it was a great product and had high potential for success if launched. However, patches were not in the U.S. OTC monograph as a dosage form. So, launching this new product was risky, but the prospect of success with patches overcame the predicted risk.

Rohto's International Division team looked for an OEM manufacturer in Japan for development and production. Since it was a new product even for Rohto, there was no existing manufacturing line. Both the U.S. and Rohto's teams investigated several manufacturers and decided on the Lead Chemical Company Limited in the Toyama prefecture. To export the products to the U.S., the manufacturer would have to comply with



the U.S. FDA's GMP standards. This was a new hurdle for Lead Chemical. Both the Rohto Mentholatum team and Lead Chemical worked hard together to meet this challenge. After much trial and error in both the formulation and production process, in 1992, Pain Patch was launched. The first production batch was made and exported to the U.S. Mentholatum Company. The distribution and sales went well with good market acceptance and consumption, providing for incremental sales to the topical analgesic product line. For the next couple of years, it became a growing product for Mentholatum, until competitors entered the category. The sales of Pain Patch in 1998/99 were \$2.2M. During the next ten years, it grew to \$9.7M in sales.

In 1998, new president in the U.S., Douglas Russell and Vice President of marketing, Martin Cohen planned to develop a unique, new idea in a product called Migraine Ice. It was meant to relieve or ease migraine pain utilizing a patch dosage form. Similar cooling-type patches were prevalent in Japan, but they were used for fevers in children. The U.S. team thought the same product could be used to relieve hot flashes and migraine pain. Through marketing and consumer research, it was



expected to be well accepted by target consumers. The product could be registered as a medical device class A with the name Migraine Ice. When the Mentholatum Sales team explained the product benefits, retail outlets (Walmart, Target, Walgreens) reacted very positively, predicting high sales. Some buyers said “it’s a home-run product.” With this feedback, the U.S. team invested heavily into marketing the brand using TV commercials, launching it in 1999. Consumption rates reacted positively to the promotions and initial distribution went well. However, Mentholatum soon realized consumption could only be maintained with heavy investment in promotions. Sales started to decline and retailers questioned the potential of Migraine Ice. Although Mentholatum started another television commercial in September 1999, it was too late to promote the product as returns had already started. Recovery became impossible with low consumption and declining sales. Accordingly, the U.S. had a lot of returned products and inventories sitting in the warehouse. The profit and loss statement for Migraine Ice in 1999/2000 showed huge losses. It was speculated that the high retail price (\$7.99 - \$8.99 per carton) was the major cause of low sales.

Comparing fiscal years 1988/89 to 1998/99, Mentholatum U.S. sales increased thanks to the sales contribution of Softlips and Pain Patch from \$27.8M to \$37.2M. In 1998/99, the operating income was \$2.2M with royalty income. Although the U.S. maintained positive profits, it had \$5.4M in losses (without royalty) due to the high Advertising and Promotions (A & P) costs and General and Administrative (G & A) expenditures. In the next year in 1999/2000, the losses expanded due to Migraine Ice.

Europe

In the 1980’s, Mentholatum U.K. sold Deep Heat Rub, Deep Heat Spray, Deep Freeze, Mentholatum Ointment (balm and tins), Stop-n-Grow, and Snug without visible growth. 30% of sales were from Deep Heat Rub and Deep Heat Spray. In the early 1990’s, one of MUK’s competitors introduced non-steroidal, anti-inflammatory gel products to the U.K. market. To compete, MUK developed Deep Relief in 1994. Its formula included ibuprofen and l-menthol providing “dual action.” It was well designed as a high efficacy painkiller. Deep Relief contributed to the expansion of the U.K.’s topical analgesics line as well as developing markets in Russia, Ukraine, and other European countries later (in 1999).



To widen the Deep Relief line, Aki, Bron, Rohto’s Number 3 Product Division, and the MUK R & D team, as well as Lead Chemical worked for over two years to develop a patch dosage form for Deep Relief. Unfortunately, due to very strict regulations for NSAID patches, their efforts did not bear fruit.

Although MUK’s topical analgesic products had a high awareness rate in consumers and significant market shares in the U.K., its business category was limited without much opportunity for growth. Attracted by Rohto’s eye drops, MUK planned and undertook the introduction of Rohto Zi for Eyes eye drops for the U.K. market. It was a tough project, with MUK being inexperienced with eye drops and the category in the U.K. being highly regulated and narrow.

The introduction was planned for early 1998, however, due to issues with regulations, MUK and Rohto chose to register the product as non-OTC.

The formulation was one of Rohto's existing lubricants/artificial tears utilizing l-menthol. It was launched with the brand name, Rohto Zi for Eyes, in March 1999. Major retailers Boots the Chemist and Superdrug, as well as other independents drug stores distributed the product. The U.K. marketing team tried to promote them as new and stylish eye drops with a unique cooling sensation.

They created a television commercial and promoted it heavily. Unfortunately, U.K. consumers were very conservative in their use of eye drops. Many were hesitant to use traditional eye drops and for this reason eye drop sprays were often used in the U.K. Curiously, an eye spray is applied over closed eyes to mitigate the direct contact with the liquid. There were several traditional eye drops including Optrex, Brolene, and Vital Eyes on the market, however consumers did not use them daily, as in Japan. Instead they were used when consumers had a problem with their eyes. In Japan and even in the U.S., traditional eye drops were widely accepted and used for eye fatigue, dryness, or red eyes. In the U.K., they were mostly used for dry eyes.

Initial consumer response was positive. After the first three months, both Boots and Superdrug increased their number of distribution stores. Boots nearly doubling from 530 to 1050. 165,000 units were sold during the first six months with market share at 8.4% by July. However, Rohto Zi for Eyes could not meet the consumption hurdle expected by retailers. It would have required significantly more expense in advertising and promotions. With cost benefit analysis, MUK and Rohto decided not to continue to invest. As it was a joint project between MUK and Rohto, it ended up with heavy losses for Rohto in 1999/2000. In the fiscal year 1998/99, although MUK sales increased to \$16M, the Operating In-



come was at a loss of \$1.8M due to the expensive advertising and promotion investment in the Deep Relief and Rohto Zi for Eyes.

Other Markets

During the first ten years, the newly developed markets such as Mexico, Thailand, and Malaysia had started their businesses by introducing Mentholatum's existing products such as Mentholatum Ointment, Lip Ice, and Deep Heat Rub. Although the sales in these countries were still small, they gradually grew and in later years, many of the countries added Rohto's products to their product portfolios. While they had negative profits, this was a time for these new markets to invest in the advertising and promotion of their product lines.

Mentholatum Australia and Mentholatum Canada worked diligently to grow their existing product lines during the first ten years, without introducing any of Rohto's products. In 1990, Mentholatum Australia launched Laxettes, a chocolated laxative product they developed and Deep Freeze, a product from MUK. The sales in Australia and Canada gradually grew thanks to their efforts.



The business in Taiwan had been growing nicely since establishing the joint venture company. Sales reached \$6.8M in fiscal year 1998/99, with increased sales of Mentholatum Ointment.

Summary

Throughout the first ten years, total sales of Mentholatum had increased from \$41M to \$85M. It had expanded markets by setting up its subsidiaries, licensees, and distributors. MZL, M Taiwan, M Mexico, RM Malaysia, RM Thailand, Mentholatum Pharmaceutical India, were all opened. Separately, Rohto developed direct subsidiaries,

PT Rohto and RM Vietnam. To strengthen new product development, a new R&D facility, RMRL, was established in Philadelphia. To meet the new GMP standards, MUK built a new factory and office in Scotland, moving from England. Mentholatum U.S. moved its factory and headquarters from Buffalo to Orchard Park, New York.

At the same time, the efforts to introduce new brands and products from Rohto's portfolio had started. Several products such as Softlips, Pain Patch, Rohto's eye drops and several other lip balms, were launched successfully.

Due to market expansion, the dynamics of regional sales contributions had changed. In 1988/89, 66% of sales came from the U.S. region (including North and South America). Ten years later, sales contributions from Asia (including

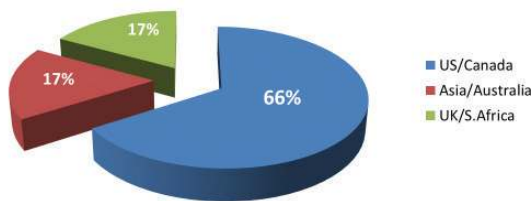
- M Mexico: \$ 10K (sales) and \$ -4K (O.I.)
- UK: \$ 15.7M (sales) and \$ -1.8M (O.I.)
- Pharmaceutical India: \$13K (sales) and \$-132K (O.I.)
- M Asia Pacific (HK and MZL): \$ 21.0M (sales) and \$2.1M (O.I.)
- Taiwan: \$ 6.8M (sales) and \$1M (O.I.)
- Malaysia: \$ 600K (sales) and \$ -9K (O.I.)
- Thailand: \$ 690K (sales) and \$ -150K (O.I.)
- Australia: \$ 5.5M (sales) and \$1M (O.I.)

While the total sales had increased to \$85M, the operating profits were down to \$3.6M with royalties from Rohto (\$7.5M). Without royalties, operating income of MUS was \$ -5.4M, and total Mentholatum was also in the red at \$ -4M. Even with royalties, the net income of consolidated Mentholatum was only \$900K due to high interest expenses on bank loans.

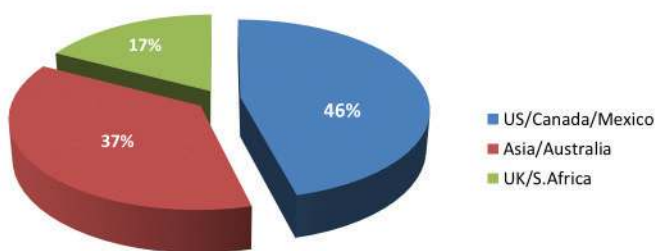
In 1999, two big projects, Migraine Ice (MUS) and Rohto Zi for Eyes (MUK), were not as successful as was hoped. Both failed to meet trade sales expectations, ultimately causing them to be discontinued.

As Mentholatum had adopted a management policy which encouraged independence, each subsidiary was very much diversified and individually managed both financially and in terms of product development. While this approach gave Mentholatum strength, it also created a lack of alignment among subsidiaries. The individuality often made collaboration and communication difficult.

Sales by region 1988/89 (\$41M)



Sales by Region 1998/99 (\$85M)



Australia) increased from 17% to 37%, while the U.S. decreased its sales ratio from 66% to 46%. The U.K. sales contribution remained at 17%.

According to the financial report in fiscal year 1998/99, net sales and operating income of each region were as follows:

- US: \$ 37.2M (sales) and \$ 2.2M (O.I.)
- Canada: \$ 4.2M (sales) and \$ -530K (O.I.)

Chapter 3: Evolution and Growth

1999 – 2009

In December 1999, Kunio Yamada, newly appointed President and CEO of Rohto Pharmaceutical Co. Ltd. (Rohto) visited the headquarters of the Mentholatum Company in Orchard Park, New York. After hearing about the company's business situation, Kunio decided to make changes to top management. Though they had been working hard, it did not show in the business results. He appointed Aki as the new president of Mentholatum. At the same time, Aki would maintain his role as Rohto's Managing Director. This double responsibility dramatically helped to combine the strengths of Mentholatum and Rohto. After more than 30 years at Rohto, Aki was familiar with Rohto's philosophy, organization, human resources, and products. Two hats became a potent tool to develop and grow the Mentholatum business, through the introduction of new products, exchange of human resources, and close communication. He also decided to get the cooperation of Masahiro Kazahaya, as a consultant to begin improving the business situation, after a significant decline in operating income for two years in a row.



Visiting Pierre Fabre Pharmaceutical

In January 2000, during a visit to the Mentholatum's headquarters in Orchard Park, New York, Aki gave a speech to his new employees. As he was a Doctor of Pharmacy, he explained from a doctor's eyes, that he planned to analyze, diagnose, and "prescribe treatment" to improve Mentholatum's sick business. So, Mr. Kazahaya actively analyzed the Sales/Marketing, Operation, and Finance departments of MUS and its subsidiaries. His background at the Warton Business School, at the prestigious University of Pennsylvania in the United States, helped him understand the workings and management approach of American companies. He proposed improvements plans, then worked with Aki for about two years to implement them. He provided useful advice on the management of Mentholatum as a whole.

This second ten years after the acquisition, was a time to grow newly introduced products by Rohto and make full use of the newly created and expanded sales network. It was also a time when the company sought to further expand its range of products by acquiring new, attractive brands that were not part of the group.

At the time of the acquisition, Mentholatum's management approach to each region and its subsidiaries was to respect the uniqueness and autonomy of each country's site. While this philosophy was maintained for the first ten years, Aki realized there would need to have closer communication and a more unified direction for the company to be successful. In particular, Aki aimed to create a synergy, by strengthening cooperation with Rohto,

exchanging information among Mentholatum subsidiaries, and managing business paths.

The main products introduced from Rohto over the second decade were Sunplay, Acnes, Rohto Eye Drops, and Hadalabo. Many new lip care products along with Mentholatum Men's skincare, developed and introduced to the market by Mentholatum, provided the most significant sales for the company. These brands and products were successfully introduced in Asia, rapidly increasing sales and contributing significantly to Mentholatum's growth.

Introduction and Development of New Products *Softlips and lipcare*

Launched in 1991, Softlips had steadily increased sales in the U.S. in the first ten years. During the next ten years, with changes in the package design and product messaging, as well as cost reductions with local manufacturing, Softlips products continued to grow in sales and be highly profitable. Through the use of T.V. commercials, introduction of seasonal items, and the expansion of various promotions and distributions, sales at major retail stores such as Walmart, Target, and HEB soared. Having Softlips at the front end in stores made a dramatic impact on sales. Target's front end sales were nearly ten times that of Cough & Cold shelves and in the year that Softlips Vanilla/Pearl Twin Pack was introduced at Target, Softlips recorded the top sales in the category. By fiscal year 2008/09, Softlips sales increased to 19M, a 170% leap from the previous year,



which contributed significantly to sales and profits at MUS. Lip care's combined sales of Softlips and other lip balms accounted for 21.7% of total sales.

The Softlips brand was introduced in the U.S. Canada, Mexico, and South Africa. In other countries, the same product with a slim body shape, was sold under the Lip Ice brand. Softlips showed good sales in Canada, which was developed in the same approach as in the U.S. Mexico, Chile, and other Latin America markets also began selling Softlips, but later changed to the Lip Ice brand, which sold well and gradually spread into the region. By 2008, Mentholatum focused on its three lip care lines; Mentholatum Lip, Softlips, and Lip Ice.



To further expand this steady sales growth, new Softlips lines were actively developed. Softlips Pure and Softlips Color lines were launched in 2008 and the Natural and Organic lines were launched in 2009. The years that followed this era were the golden age of Softlips in the U.S.



In 2003, Mentholatum changed MZL, which was more of a local name to Mentholatum China Phar-



maceutical (MCL), which would have a more national association. Lip care products became MCL's driving force, ranking as its highest sales. Through the introduction of new products and effective advertising, sales grew continuously. MCL created an R & D department in 2003, which enabled the development of new lip care products. Over 10 years, creating new products internally, along with high profit margins, helped to accelerate the revenue growth of MCL. Profits were not only reinvested into lip care but also into other skincare products. This investment supported advertising promotions for new product introductions and enabled MCL to enhance the success of other brands.

Patch

As previously mentioned, in 1992 the patch had been introduced to U.S. as Pain Patch, and it was accepted by the market thanks to its unique product formulation. Sales gradually rose. During the several years following its introduction, patch products enjoyed good sales until competitors launched similar products.

It was thought that patch products were not so easily replicated by other companies, (specifically in the U.S.) because they were uniquely Japanese. However, Chattem Incorporated was the U.S. market leader for OTC topical anti-inflammatory analgesic creams such as Icy Hot, and they noticed that Pain Patch sales had been growing. They investigated and found that Lead Chemical was a manufacturing vendor for Mentholatum. Unbeknownst to the Mentholatum Company, Chattem worked with Lead Chemi-

cal to manufacture their new Icy Hot Patch products, with the same level of quality as Pain Patch, imported from Japan and released into the U.S. market.

Chattem's Icy Hot Patch grew rapidly due to their intensive A & P activities. Then other competitors came, including Bengay Patch, Aspercream Patch, and Salanpas Patch. These brands along with the arrival of private label versions and inexpensive Chinese versions caused a flood in the market. The sales and consumption volumes of Pain Patch were significantly affected.

In the early 2000's, to further expand the Patch business, Shingo Kuriyama and Kanae Kokubo, both skilled in marketing, were sent from Rohto. In 2003, with their efforts, the brand name of Pain Patch was changed to Well Patch, and its design was also updated. Later, product lines were broadened, by introducing new items such as Well Patch Heat, Well Patch Capsaicin and Well Patch Migraine Ice, eventually expanding to a total of five (adding Well Patch Arthritis and Well Patch Backache). Lead Chemical was still the manufacturer for Mentholatum at this time.

Mentholatum reviewed its patch business and realized it was not profitable because the products were imported from Japan, resulting in a high manufacturing costs. This factor as well as being pushed by sales promotions from competitors, convinced Mentholatum to build its own patch production line in the MCL factory in China. This joint project between Rohto and MCL was launched in 2005.

Neither Rohto nor Mentholatum had experience or knowledge in manufacturing patches. They had to explore production processes from scratch. Fortunately, Yoshiyuki Hirayama at Rohto's R & D Department had experience with the development and production of patch products with previous employers. Yoshiyuki together with Takefumi Tsuchie from the Production Engineering Department at Rohto, started off by designing component machinery, a layout of a production line and an assembly of component-machines. They also worked to overcome many challenges including investigating product materials, formulations, and stability-safety issues.



Other Patch Products in the Market



Patch Production Line at MCL

Finally, the patch production line was completed with the exceptional efforts of the staff including the managers from Rohto, as well as Shu Wong, the MCL factory Managing Director, and Naelong Wang, the MCL Manager of R & D.

This project provided cost saving measures through increased volume production. The plans included not only patch production for the U.S. market, but also for Japan. A new product called Fever Patch would be exported to Rohto increasing the usage of the production line.

The new production line was maintained methodically, so high-quality products could be mass-produced. However, large numbers of workers were required for quality assurance and 100% inspections. Therefore, the benefits of the low-cost labor in China was not fully realized. While labor costs were significantly lower in China, costs of raw materials, mostly imported from Japan, remained relatively high despite efforts such as local sourcing. As a result, the product price could not be lowered enough. The export-pricing among subsidiaries was affected by the transfer-price regulation, in addition to the capital-investment amortization charges. Consequently, the production cost did not become as low as was planned. Logistics were also any issue. Coordinating ordering, producing and sales for export did not function well, and this was especially true for the U.S., where it took several months from ordering to delivery. It often caused problems such as out-of-stock or excess inventory.

In order to make up for a downturn in the patch business, development of various new products were attempted. Among them, an idea for a cough sup-

pressant patch for children which would be used on the chest. Well Patch Cough & Cold (a.k.a Vapor Patch) was a gel patch created with an orange scent and adhered to skin well. It was considered an optimal extension of Mentholatum's Ointment product line. In 2006, it was produced at MCL and launched into the U.S. market.

Soon after the launch, there was an accident where a child choked on a similar product produced by a competitor. The FDA immediately banned the sale of chest patches for children, and requested they be recalled. As a result, Well Patch Cough & Cold, which was just released, had to be voluntarily recalled in response. It was unfortunate that the potential of this exciting and new product could not be realized.

At that time, Aki thought that if Mentholatum could develop a new patch product that children could not choke on, then it could be introduced to the U.S. and other markets. Mentholatum was unable to develop the product. Surprisingly, in 2018, Vicks launched a new cough & cold product for children called Vicks VapoPatch, with the same concept and benefits.

After 2007, the products manufactured at the patch production line at the MCL factory included Fe-



ver Patch for adults and children for the Japanese market and Well Patch Backache, Well Patch Arthritis, Well Patch Migraine Ice, and Well Patch Capsaicin for the U.S. market. Private label patches such as Walmart's Equate and CVS's Cool & Heat were also produced. So, patch production items increased at MCL.

While production was successful in terms of quality and functionality, costs were still a problem. Therefore, the export price of Fever Patch for Japan was set lower than its production cost at MCL due to competition in the Japanese market. Despite this deficit, production continued to maintain volume, and the deficit was recovered by raising the export price to the U.S. Over time, however, the sales volume in the U.S. started declining due to its market competition. This created a vicious cycle between volume and cost levels. As volume started diminishing, it became increasingly difficult to maintain the volume effects of reducing production costs. As the sales volume declined, the production cost increased accordingly, making it impossible to promote sales sufficiently, depressing sales volume even further.

In 2008, an issue related to a patent on patches became an additional cost. The patch products manufactured and sold by Mentholatum in China were based on a unique technology which originated from Japan. Its patents were old and expired so that the technology could be freely available to produce and sell them in most countries. It just so happened that Lens Tec developed a similar product in the U.S. and filed for patent protection. After the patent was granted, Lens Tec filed complaints that all patch products marketed in the U.S. infringed on the company's U.S. patent.

Patch products had been developed and used in Japan as well as Asia for a long time, and were sold in the United States prior to the patent. Thus, Mentholatum objected and argued that the patent itself should not have been granted, and the company's products did not technically infringe on the patent. Mentholatum was confident in its stance, but when a case is set for a trial in the U.S., legal expenses can be high. The plaintiff also held firm

and was ready to wage a legal battle. It was judged to be disadvantageous to engage in the litigation and settling out of court would minimize the loss incurred. \$600,000 was paid with the legal condition that they not bring any patent-infringement legal action against Mentholatum's patch products. While free from the litigation, it was a bitter experience.

All companies, which sold patch products in the U.S. at that time, paid Lens Tech to avoid patent litigations. Especially Endo Pharmaceuticals, which had a successful business with medical lidocaine patch products, and was rumored to have paid several billion yen. In any case, all patch companies paid a high tuition for this learning experience.

Retail prices of all patch products in the market dropped and sales of the Well Patch line gradually declined. In order to recover declining sales, Mentholatum developed a single pack patch with a \$1.00 price tag, for Well Patch Backache, Well Patch Capsaicin and Well Patch Heat. However, the cost of goods continued to be problematic, making promotions very difficult. Surprisingly without promotions, sales of all three single patches at Walmart were strong.

Looking at the U.S., although the sales of the Well Patch line during the fiscal year 2007/08 rose to \$9.6M, its retail price rapidly deteriorated, suffering from cheaper commoditization due to private label products and competition with other companies. As a result, its sales in 2008/09 fell to \$5.3M. This accounted for 6.8% of U.S. sales.

Mentholatum investigated introducing patch products into other regions globally. Ultimately, they were launched in Canada, Mexico, Brazil, United Kingdom, Australia, China, Hong Kong, Taiwan and other countries. Due to varying regulations and market circumstances, each country introduced different patch products. Patches using charcoal or ferric oxide for heat-generation were welcomed in the U.S. and in the U.K. They were marketed under the Deep Heat brand, resulting in good sales. These same products were introduced in Australia. Taiwan sold its own products

manufactured by an OEM company.

MCL strived to expand its sales in China using the Mentholatum brand name, but faced several hurdles. The Mentholatum brand in China was not associated with topical analgesics. Also, there were many inexpensive locally-made competing products. MCL looked for private label business within China, but it did not materialize.

Rohto Eye Drops

When Rohto's eye drops were introduced to China in 1996, the eye care market was limited. As the market expanded, sales volume increased. The original eye drops production line in the MCL factory in Zhongshan, using a filling machine formerly used by Rohto, had limited production capacity. By 2003, facing stricter Chinese GMP standards, Mentholatum realized to both increase production capacity and improve quality control, a second eye drops production line would be necessary. For the increased capacity, it would require the latest manufacturing equipment, allowing for mass-production.

In 2004, while this second factory building was being created, MCL was able to acquire additional land around its existing property for future business expansion. By 2005, Rohto and Mentholatum had worked together to complete the second factory with state-of-the-art equipment installed for manufacturing the new eye drops line. This new line was meant to meet the annually stricter GMP standards as well as to increase production capacity. With the more automated and modernized factory MCL was able to

achieve a filling speed of 40 million units per year. The capacity nearly tripled from the previous level of 13 million units per year, which was the maximum production volume in the first building. Along



with the eye drops equipment, a new production line was also created for other skincare products.

In 2002, as eye drops sales increased and in celebrating its 10th birthday, MZL began contributing to its local community through educational activities, helping increase awareness and understanding of the importance of eye care specifically for children and younger generations. Free eye exams and consultations including education were provided to the public. Since then, this activity continued and expanded to include regular donations and financial backing for renovations to the Tanggan Primary School, which was located near the factory (Project Candlelight). As of 2019, this eye care education program had



**New Eye Drops Manufacturing Line
in Building 2**

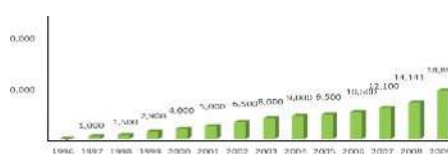


reached 12 million students in 9,231 elementary and junior high schools in 11 cities in China.

By 2006, sales volume of eye drops had continued to grow rapidly in China. Mentholatum wanted to expand its product line. Due to product registration restrictions only a limited number of new products were introduced. Rohto Namida was launched, helping sales reach approximately \$28M in 2006/07, increasing 10.5 times from a decade earlier (\$2.7M - 1996/97). However, in 2007/08 there was a significant issue with overstocks which had a major impact on true sales levels. Ultimately, it took almost 10 years to recover to the 2006/07 level.

Rohto eye drop products were well accepted in other Asian regions, growing rapidly in the markets of Hong Kong, Taiwan, Vietnam and Indonesia, which greatly contributed to increase the sales volume of subsidiaries of both Mentholatum and Rohto. Although the eye drops production line at MCL would be the obvious choice to produce the eye drops for several of these countries, due to varying regulations within each, the products manufactured in China could not be exported. Instead, Hong Kong and Taiwan imported Rohto products from Japan. RM Vietnam used its own factory and PT Rohto Indonesia utilized an OEM manufacturer.

Since product approval standards in Hong Kong and Taiwan were similar to those in Japan, importing Rohto's products into their markets was relatively easy. Brand names and formulations of the products introduced were slightly different from those in China



Sales trend of Eye drops in HK

and their sales volumes grew by taking advantage of utilizing the same products that were sold in Japan.

On the other hand, in the U.K. and the U.S., development and introductions were delayed, compared to Asian countries, due to differences in regulations and consumers. For the U.S. market, Rohto's eye drops products were considered early

on, in the 1990's. The U.S. eye drops market was much larger than the Japanese market in relation to population ratios. The market needs in the U.S. were divided clearly according to different symptoms and a few companies had already established strong brands. While it was very attractive, it was a highly competitive market environment. So, introductions into the American market would be tough.

The OTC regulation for eye drops products differed from country to country. Products already introduced in Japan and other Asian countries were still required to meet U.S. OTC regulations. In the U.S. market, there were no products containing menthol as it was not listed in drug ingredients defined in the OTC FDA Drug monograph, which was used as permission criteria. Selling the eye drops there risked violating the regulation. The refreshing and cooling sensation which menthol provided was the principal feature of Rohto's eye drop products. In addition, introducing the products would require a large amount of initial investment for A & P. So, it was decided that the introduction of eye drops in the U.S. would be postponed.

In 1999, after being newly appointed, Aki had to deal with a large volume of unsold and returned products of Migraine Ice, while also carrying out the changes in the U.S. management of the company. During his first year, he worked diligently to devise fully developed business plans for Mentholatum U.S.

By mid-2000, with both the issue with Migraine Ice products and the management in the U.S. being resolved, Aki could focus on introducing Rohto eye drops to the U.S. market. After analyzing U.S. market research and plans from the early 1990's, he was confident that the introduction of Rohto eye drops could be a game-changer for Mentholatum U.S. Despite the high risk, he strived forward with its introduction. The development of the

products was in cooperation with RMRL and Rohto's R & D department. Although there still remained some risks in using



menthol, Rohto V for Eyes and Rohto Zi for Eyes were launched into the U.S. market in 2001.

The consumer survey completed prior to the launch concluded that the level of cooling sensation, which was well accepted in Japan, would be too strong for Americans. In Japan, as menthol in eye drops was common and used daily, consumer habits shifted toward even stronger cooling in their eye drops. Since consumers in the U.S. were not used to such a strong stimulation, a formula was developed with a minimum amount of menthol.

An online media campaign was initiated, utilizing YouTube and Facebook. Video clips taken at schools and events where sample products were distributed showed how consumers were surprised by using the eye drops for the first time. With exciting user experiences and the novelty of the container design, MUS began promotional activities without TV commercials.

During the first year, consumption did not rise much and the POS trends were slow at major retailers such as Walmart and Walgreens, far from the U.S. team's expectations. However, during the following year, POS gradually started to grow. As Rohto was keenly interested in how eye drop products would be received in the U.S., Aki relayed the favorable trend that seemed to be occurring. Of the two products, Rohto V for Eyes was growing, moderately but steadily while Rohto Zi for Eyes which had not grown, gradually declined. The steady sales growth of Rohto V for Eyes was attributed to its strong red-eye relief ingredients, which were 5-10 times stronger than the Japanese version, due to differing regulations. The refreshing and cooling sensations, coupled with the interest by young adults, helped its POS grow with time. Rohto Zi for Eyes was not intended to give redness reduction and the cool sensation of menthol alone did not appeal to consumers, causing declining sales.

In 2008, to strengthen and expand the product line, MUS developed sets of ingredients based on levels of the coolness as well as



Change of Package Design



a range of applications while keeping the original redness suppressant. Rohto Ice and Rohto Arctic were created and Rohto V for Eyes was changed to Rohto Cool. Package design of these three was also upgraded. In 2009, Rohto Hydra was launched. It was formulated uniquely with alginic acid which reacts with tears to moisturize the eye.

At the same time, MUS wanted to develop an eye drops product to eliminate discomfort and dryness for contact lens users. With cooperation from Rohto, the development of a low viscosity (with a refreshing feeling) product and a high viscosity (long lasting, more cooling with lubricant) product proceeded. Unfortunately, the products required FDA registration and approval as a medical device and clinical trials became necessary as well.

The clinical study was conducted over a period of two years. However, the data and cases were not adequate enough and expenses were piling up. In addition, a reason to include menthol along with its safety data was persistently being requested by the FDA. The mission to register the products was aborted given the risk that the menthol-inquiry could have had on the existing products already in the market.

Sales grew steadily, becoming one of the fastest growing product lines at MUS, increasing to \$4.9M in the fiscal year 2008/09. In 2009, a new eye drops for tired and allergy eyes was developed and launched, but it could not



survive in the market due to less differentiation from competitors.

It is worth noting that products developed and introduced in the U.S. were approved without much difficulty since most of the U.S. regulations

were shared among North and South America as well as Canada. However, working toward the introduction of Rohto eye drops to Canada and South America would come later.

In Europe, the registration of eye drops as an OTC product was not easy due to differences in regulations. Rohto ZI for Eyes, introduced into the U.K. in 1999 but not accepted by the market, was ultimately discontinued. In 2009, MUK developed a new product Rohto Dry Eye Relief, with another company, by incorporating a newly-patented ingredient bi-polymer (HydraMed), blended with hyaluronic acid. The product was highly effective, but had only limited distribution and was also ultimately discontinued.

Sunplay

Before the acquisition of Mentholatum, the Exception brand was Rhoto's first attempt at a "sun care" product, which was developed by Aki when he was director of the Number 3 Product Division. Its formulation technology was not well developed resulting in vulnerability to water (not waterproof). Also, its introduction may have been premature since the sun care market was still developing. Consequently, it was not successful. In 1993, Sunplay, Rhoto's next sun care product with an improved formulation, was introduced in Japan



and grew over time.

Although the sun care market was not yet well established in China, the Sunplay brand was introduced in 2001. This decision was based on the increased demand and popularity of Sunplay in Japan. Three product lines within the brand, Sunplay for outdoor use, Sunplay for daily use and Sunplay for kids, were launched and showed steady sales growth. The products focused on higher UV absorption effects (SPF), especially Sunplay for outdoor use which had an SPF of 130.



The sales volume in fiscal year 2008/09 reached \$5.1M (USD), thanks to a variety of advertising and promotional activities. Ultimately, Sunplay for outdoor use ranked number one in China in the Outdoor Segment. In 2009, Skin Aqua was introduced as a daily skincare product with a wide range of uses. Over the next decade, its sales increased together with Sunplay.

After its introduction in 2001, the brand recognition and sales of Sunplay increased year by year. This was thanks to the products' fail-proof effects, light texture, and high quality as well as promotional activities including TV commercials, magazine advertisements, coastal event promotions, sampling, and store promotions. As it was a mostly a seasonal (summer) business its preseason preparation was essential. It was also necessary to produce and deploy the products to stores prior to the summer season. Similar to lip care products which are subject to the weather, unsold products came back after the season ended.

Sun care was a new field for Mentholatum and Sunplay was considered the best option to complement the winter season lip care products. As a result, the sales of Sunplay topped in the first half of the year and the sales of lip care products were much higher in the second half. During the following 10 years Sunplay grew continuously in China. In particular, Sunplay SPF 130 and Skin Aqua SPF 50 + / UVA +++ continued to fight hard against major competitors.

While launched in China, the product line was subsequently introduced into Hong Kong, Taiwan, Thailand, Malaysia, and Singapore, and received high consumer support in each country. In Asia, it gained a number one market share in many countries, competing against major sun care products such as Shiseido, Nivea, Loreal and Kao. In 2008/09, total sales of Sunplay in Asia increased to \$15M.

Due to differences in sales practices and competition in the market category, the introduction of Sunplay in the U.K. and the U.S. was not planned. Some attempts were made in Latin America, including Mexico, but unsuccessfully.

The Sunplay brand products evolved over time and became highly successful by incorporating the world's most advanced technologies in sun care. As global warming progresses in the future, its demand is likely to increase.

Acnes

Acnes was created during the same Number 3 Product Division era at Rhoto as Sunplay had been developed. It was originally released under the brand name Spots Off, but was changed due to a trademark issue. The product re-introduced with the new name Acnes had improved ingredients and built strong sales in the Japanese market. Acnes offered a wide range of products for acne treatment, as well as for prevention and daily care.



Acnes 2000's
Products and Promotion

Product sales increased with unique TV commercials and they were considered suitable to expand to other Asian markets. This expansion started with China in 2004 and continued to other Asian countries. The sales of Acnes steadily increased in China and rose to \$7.9M in 2008/09. Sales increased steadily not only in China, but Hong Kong, Taiwan, Malaysia, Singapore, Thailand, and South Korea as well. In 2008/09, the sales ratio in the Chinese market grew to 7.5%, surpassing Sunplay at 5%. Mentholatum's sales of Acnes for the whole Asian region grew to \$17M. Later, the brands were also successfully introduced to Vietnam, Indonesia, and other countries, showing consistent sales increases.

Mentholatum Men's

MAP utilized the well-established company name and brand recognition of Mentholatum in China to develop Mentholatum Men's. With careful consumer research and planning and a desire to enter the gradually expanding market of men's skin care, it was launched in 2004. Later, in 2006, it was introduced to Hong Kong. After launching, Mentholatum Men's quickly gained approval from consumers through aggressive advertising and sales promotion activities using TV and magazine advertisements, as well outdoor sign advertising.

At that time, the skincare market, mostly centered around women's skincare and was dominated by major European and American brands. While there was interest by Mentholatum and Rhoto to en-



ter the woman's skincare market, it was considered extremely difficult. However, the men's skincare



market was still in an early stage and demands for products were not yet substantiated. Two to three mega brands, including L'Oréal or Nivea were in the process of forming the market. MCL decided it was an opportunity to get into the market early and worked to develop new products.

For the Mentholatum Men's product line, Mentholatum in China initially focused on a facial wash using charcoal, later expanding its product range by adding body and moisturizing products. At the end of fiscal year 2008, Mentholatum Men's face wash recorded the largest sales with 57%, followed by Men's moisturizing cream at 26% and Men's body wash at 8%. Mentholatum Men's within the men's skincare category had a market share of 23.5% in China and at Watson's, a flagship retail channel, gained the 2nd largest market share, under L'Oréal. While the advertising and promotional expenses for Mentholatum Men's were considerably less (by 1/5 to 1/10) than many of the major brands, the products were highly appreciated and regarded in the market, and sales grew with effective promotions. Fortunately, by that time in China, Mentholatum's lip and eye drops products, as well as Sunplay, Acnes, and Mentholatum Ointment had been positioned as premium products. The positive brand image had been formed and the Mentholatum name was



highly recognized and associated with high-quality and luxury.

The sales of Mentholatum Men's reached \$16M (USD) in 2008/09 and the sales of the Oxy skincare line (introduced in 2008) grew to \$4M (USD). The Chinese domestic sales stood at \$85M (USD) in the same year with lip care sales accounting for 40%, Mentholatum Men's at 20%, eye drops at 17%, Acnes at 7.5% and Sunplay at 5%.

Hadalabo

Hadalabo was born in Japan and has been the most successful among the skin care products developed by Rohto. Its formula contains multiple hyaluronic acids and their derivatives as facial moisturizers, enhancing absorption and eliminating unnecessary components and additives as much as possible. The product was created based on the idea of "Perfect and Simple" and was released in Japan in 2004. Initial sales were explosive.

Observing the rapid growth of Hadalabo in Japan, overseas expansion was sought at an early stage. The first target was China. So, Anita, MAP's President of the Asian Region, evaluated the products by actually using them. She found them "a little sticky" especially the best-selling item, Hadalabo Gokujyun Lotion. Her concern was that it would not be suitable for women in highly humid Asian countries. Another uneasiness she had, related to differences in consumer habits in China. Most women associated cream with facial moisturizers, not lotion. Furthermore, when Mentholatum Men's, originally-developed by MCL, was introduced in China, there was fierce competition in the market. The cost burdens of advertising and sales promotions to effectively compete within the skincare segment for women would be even higher. However, with persistent persuasion from Kunio and Aki, the products were launched on a trial basis in Hong Kong in the fall of 2007.

By 2008, having seen their promising sales in



Hadalabo Media Campaign

Development Through Brand Acquisition

Oxy

In 2005, when approached directly by Glaxo Smith Klein (GSK), Mentholatum started a quick review of Oxy as it would be the company's first major acquisition. The board of directors at Rohto discussed the acquisition and while hesitant, made the decision to "go". Mentholatum proceeded with business talks with GSK and conducted a due diligence investigation while searching for funding sources.

By December, the Oxy brand was acquired by Mentholatum for approximately \$80M, which was almost twice the sales revenue. To maximize tax benefits, Rohto USA, Incorporated was created, through which the acquisition was managed. Due to acquisition spending, borrowing from banks also increased. For several years after the acquisition, the consolidated earning of the Mentholatum Company and Rohto USA declined slightly. However, Mentholatum grew steadily and its debt repayments proceeded smoothly without issue. After nine years, all the bank loans were repaid.

At the time of the acquisition, the sales volume of Oxy had already been declining for several years. However, the name recognition was high, not only in the U.S. but also in Canada, Mexico, U.K., South Africa, as well as throughout Asia and other countries where Mentholatum had business footings and activities. It was considered an attractive brand for the company.

Its total sales at the time were approximately \$44M, with the largest sales of \$24.3M in the U.S., followed by \$7.1M in the U.K., \$4.5M in Canada, \$1.9M in African countries, \$1.7M in Mexico, \$1.2M in Asian countries and \$3.1M in other countries. There were great expectations for Oxy to improve sales of the subsidiaries. In 2004, although Mentholatum knew that it would not be easy to reverse the declining trend, the acquisition from Glaxo Smith Klein, including supply and distribution agreements was completed.

Hong Kong, Anita became confident of Hadalabo's high potential in China. Between October and December, the products were fully introduced not only into China, but also Taiwan and Malaysia.

Prior to the launch, major women's magazine editors from China were invited to Japan, and introduced to the products in detail, including visits to Rohto's headquarters, factories, and the R & D facilities in Kyoto. With the tours in Kyoto and Tokyo, they were impressed and wrote many articles about Hadalabo, relaying information about its high quality and effectiveness. Creating a successful introduction to China was the highest priority. Making the upfront investment in sales promotions and marketing activities helped sales grow rapidly.

The Oxy products, using benzoyl peroxide (bpo), had been sold through Glaxo Smith Klein, for over 15 years before the acquisition. They were unique products that had been switched from prescription drugs to OTC. GSK increased the Oxy brand sales for several years after the switch, and it was highly regarded as the most effective brand for the treatment of acne.



Soon after the acquisition, in the U.S., various studies were conducted by Mentholatum to recover the declining sales. Based on the results of a consumer survey, a bold decision was made to switch its consumer target from teenage girls to teenage boys, emphasizing the uniqueness of the

product line. Accordingly, in 2005 changes were made to the package design to include a black-colored background, aiming at male consumers and creating a product-message that Oxy was effective not only for girls but also for boys. Eventually all countries selling Oxy made the changes with packaging and messaging.

Based on data, Mentholatum knew acne occurs mostly in teenage years, and boys and girls experience acne at mostly the same ratio. Most competitors had deployed their acne product messaging toward girls. Therefore, targeting boys was entirely new, significantly differentiated in the market, and expected to have good responses in distribution as well as a good sales recovery.

After introducing the new package, its sales increased for the first year. However, the design was seemingly geared so much toward male consumers that females might be turned away, and the trend of the sales-decline returned. At the same time, in



Change of Package Design in the U.S.

order to expand the product line from just young men to adult men, a body shampoo for men was also added. This change in market direction did not work well, and the dark package design was so strong it was thought that the range of consumers would be too narrow. Since three years of changes to Oxy did not lead to a sales increase, the target consumer was again readjusted to include both teenage girls and boys. Its package design was also changed. TV commercials were made every year to promote its sales. Despite all these efforts, sales did not grow as hoped, but the products did maintain a presence in the market.



As for the U.K., various marketing techniques were used to recover Oxy sales, including the package design and messaging. Nevertheless, the downward trend in sales did not stop. In the year of the acquisition, Glaxo Smith Klein happened to change their existing package to a pink-colored design in the U.K., which attributed to consumer confusion. Then MUK tried changing the package design as well as its color, developing various new products, shifting the entire product line toward “Natural Acne skincare” emphasizing “all natural” in its specifications. Still, these efforts were not able to stop the trend of its sales decline.



As for Japan, a new product using the acquired Oxy brand was planned.



OXY Mens in Japan

Unfortunately, benzoyl peroxide was not allowed to be used in Japanese products. Ultimately, it was not possible to develop any acne products. Thankfully the Acnes brand of acne products was already well-established in Japan. So, in 2006, Rohto decided to use the brand name Oxy (without benzoyl peroxide) to create the first men's skincare product line for the company. Several products including face wash and moisturizing lotion, were launched in Japan. In later years, they were launched in Vietnam, Indonesia, and other Southeast Asian countries, as well as India. In 2008, the Oxy (without bpo) skincare line was introduced in China. Mentholatum Men's and the Oxy skincare line, were displayed on the same shelf, to show consumers the extensive product options.



New Oxy in Canada



Because Canada and Mexico showed a similar decline in the Oxy brand, the package design and messaging was changed as it had been in the U.S., to try re-activating sales. However, sales recovery could not be achieved. In Canada, while sales did rise initially it was not sustained. At the time of acquisition, Mentholatum Mexico was a very small company. So, after the acquisition, Oxy accounted for more than 50% of its sales. In Mexico, the Asepxia brand had the top market share making competition fierce. Despite the best efforts of Mentholatum Mexico they could not increase Oxy sales.

In Malaysia, Singapore, Thailand, Hong Kong



and other countries Oxy 5 and Oxy 10, previously sold through Glaxo Smith Klein, retained solid popularity and maintained sales. As Rhoto's Acnes had already been introduced to these countries, both Acnes and Oxy brands were kept and balanced in parallel. The two brands were sold independently in some countries and were integrated into Acnes in other countries. This flexibility was an important factor to increase sales.

Phisoderm

In the U.S., Phisoderm was purchased from Chatten Incorporated in 2005. Although the sales of this brand had already declined over the previous three years, it was a well-known skincare product that was often used in hospitals. While it was in a unique product group, featuring a PH-balance, and had moderate sales during the Chatten era, sales started experiencing a rapid decline.



Due to intensifying competition in the market, the brand positioning of Phisoderm became unclear. Mentholatum proceeded with in-depth discussions with Chatten and decided to buy at below its brand value. The products were sold only in the U.S. and Canada. Aiming at recovery of the brand sales after the acquisition, counter measures were deployed. Package designs were changed, marketing messages were reviewed, and efforts were made to develop and launch new products. Unfortunately, it was difficult to reactivate the brand once its sales had declined. Similar to Oxy, Phisoderm was able

to maintain a presence in the market but could not increase sales.

Selsun

Selsun was developed by Abbot Laboratories and was sold by Sanofi Incorporated under the name of Selsun Blue. It was acquired by Chattem in 2002. Since the main business of Chattem was in the U.S. at that time, they consulted with Mentholatum and proposed the sale of their manufacturing and sales rights in Asia and Africa. The Selsun product line was unique, featuring a highly effective dandruff shampoo containing selenium sulfide. This ingredient had a unique scent. Its effectiveness matched those of antibacterial shampoos, but these already had a higher market share in developed countries. The demand in underdeveloped countries, however, was considered to be high. So, in 2006, Mentholatum decided to acquire



Product Line of Selsun

the rights to Selsun products for Asia and Africa.

As a condition of the acquisition, the contract included rights to purchase products and take over production if necessary. This arrangement highly benefited PT Rohto in Indonesia. At the time, Selsun was locally produced by Abbott Laboratories, so PT Rohto started Selsun sales by purchasing products from them. A couple of years later Abbott decided to terminate the production, giving PT Rohto the opportunity to take it over.

Until then, PT Rhoto was a medical device company that manufactured intraocular lenses and had a permit to sell, but not manufacture other OTC products. Therefore, all OTC products had to be locally pro-



PT Rohto for OTC & Skincare

duced by OEM manufacturers. Conversely, Lip Ice was manufactured in-house by PT Rohto. With the new permit to manufacture OTC Selsun shampoo, PT Rohto was able to formally produce and sell other OTC and skincare products.

Sales of Selsun in Indonesia were substantial, which also contributed to an increase in the revenue of PT Rohto. So, with the development of new OTC and skincare products as well as exports to neighboring Asian markets, the effects of the acquisition of Selsun had a significant positive impact for Indonesia.

Later, in Vietnam, as well as Malaysia, Singapore, and other countries where products already had been marketed, sales of Selsun increased thanks to the strengthening of sales promotions by Mentholatum. This was an example of a successful brand acquisition.

Alpha Keri

In 2003, Mentholatum acquired Alpha-Keri, a skincare product for dry skin, sold in Australia and New Zealand. Although its consumption and sales had declined when it was acquired, Mentholatum Australia worked





diligently to turn around this trend. They strived to promote its sales by changing package designs and market messages, as well as introducing new products. Its sales, however, did not increase as expected, and its overall trend remained the same, even with some ups, gradually declining. Although the brand reputation remained positive, when Mentholatum acquired it from Bristol Myers Abbott, an image of an old product could not be dispelled. Fierce competition continued and no sales increases could be attained.

Summary

The efforts to expand markets during the ten years just after the acquisition resulted in increased sales to some extent, although the scale of the business was still relatively small. At the same time, the company worked to reform and improve infrastructure including factories and as well as enhance R & D capabilities, necessary for new product development. To expand product lines required for business growth, with the cooperation from Rohto, Softlips and Pain Patch were introduced in the U.S. region and Rohto's Eye Drops and lip balms, were introduced in China.

After welcoming Aki as the new president, it was necessary to let those newly introduced brands develop roots in the market, and to nurture them to grow for the following ten years. At the same time, it was also necessary to expand the brand range by introducing new product lines. Within this business approach, new products introduced in Asia during the second ten years, included Sunplay, Acnes, many lip balms, Rohto's Eye Drops (sever-

al lines), and Hadalabo. Each of these products had its successful market introduction and began to grow. Mentholatum Men's, developed by MCL, became a major source of sales for Mentholatum's Asian business.

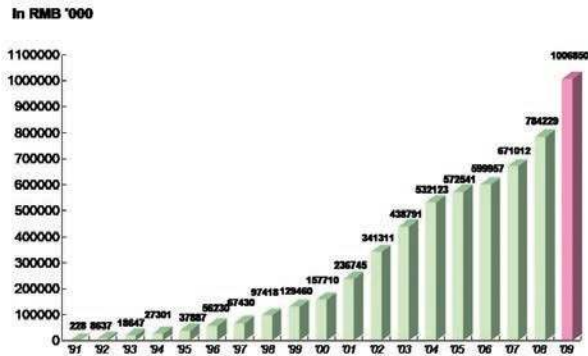
Phenomenal increases in the sales and profits from China and neighboring Asian countries became the strongest force behind Mentholatum's rapid growth during the second decade after the acquisition. Much of this achievement can be attributed to the management team from MAP who introduced Rohto's successful brands, one after another. The approach to develop business in Asian countries, was to introduce new products to Hong Kong first. While effects of various advertising and sales promotion activities were evaluated, the product brand was then introduced into China, the largest market, then sequentially to neighboring Taiwan, Thailand, Malaysia, Singapore and South Korea. This became a strategic formula, namely step-by-step market expansions by utilizing similar product concepts and messages, as well as comparable advertising and promotions. By utilizing MAP Group's strategic and unified marketing approach, the skincare business expanded significantly.

MCL grew continuously, receiving an award as one of China's 100 best foreign companies. The "100 Star Enterprises of Overseas China Investment" was awarded every three years and Mentholatum received it three consecutive times (2000, 2003, and 2006). The products portfolio for China, in the fiscal year 2008/09, in terms of sales was as follows: Lip Ice 40%, Mentholatum Men's 20%, Rohto Eye Drops 17%, Acnes 7.5%, Sunplay 5%, and Hadalabo 4.5%. 80% of sales were generated from the skincare business. 20% of sales were from eye drops, ointment, and other OTC products.

During this ten years, an increase in Mentholatum Taiwan's (MTL) sales and profits was also notable. Leveraging the market strengths of Mentholatum Ointment, MTL modernized its brand image and quickly introduced Lip Ice using the brand strategy of the Asia-Pacific region. Subsequently, several new brands were launched. The sales growth of eye drops products inherited from

Rohto's licensee, were also remarkable. With the addition of several products from Rohto, MTL became a market leader. After several years of success as a joint venture, in 2002 Mr. K.H. Tan (half owner of MTL) sold all his shares to Mentholatum.

The renaming of MZL to MCL and MHK to MAP symbolized the growth in Mentholatum's Asian



Asian Region Sales

business. These two companies as the base for the Asian region made it possible to efficiently manage the market and expand Mentholatum's presence.

Between 1991 and 1997, the Mentholatum Company created many subsidiaries. All of the subsidiaries established in Asia achieved substantial growth over the following ten years and began to contribute significantly to the company's total development. Above all, the sales by the MAP Group in China, recorded \$85M (USD) in fiscal year 2008/09, tripling during the ten-year period. The total sales from the whole East Asian region, under the MAP management, grew to \$147M. It breaks down as follows: MTL (Taiwan): \$24M; RMM (Malaysia/Singapore): \$8.5M; RMT (Thailand): \$3.6M; MHK (MAP) \$16M; MKB (Korea): \$10M. The MCL/MHK/MKB consolidated was \$111M, compared with \$21M ten years earlier, a 530% increase. With the growth of the sales, its operating profit increased in parallel and in 2008/09 it was able to report a profit of \$17M.

Rohto's eye drop product lines, Rohto V for Eyes and Rohto Zi for Eyes were introduced, beginning the challenge in the U.S. market. Mentholatum also started the sales of acquired brands including Oxy, Selsun,

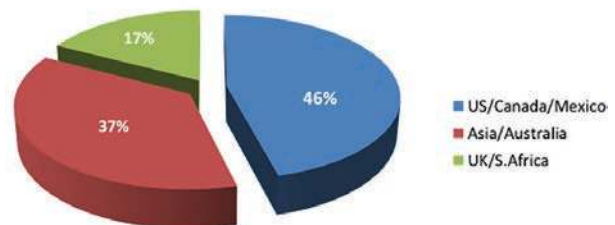
Phisoderm, and Alpha-Keri, which the group had not done before.

Mentholatum's product category was reoriented in accordance with the shift in Rohto's business model, which pivoted from an OTC-focused business towards a skincare business. This shift was particularly evident among the Asian subsidiaries near Japan. From 2007 to 2009, the launch of Hadalabo into China and other Asian markets began with high expectations.

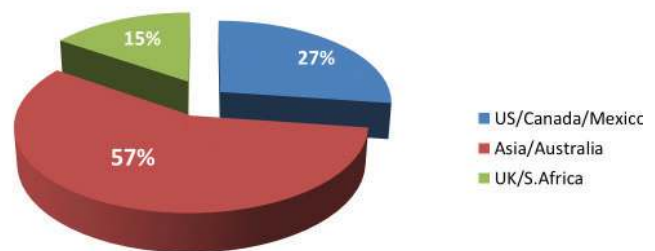
The progress in Asia during the second ten years was remarkable and contributed extensively to Mentholatum's overall growth, providing the driving force behind the company's expansion. As for the European and American markets, on the other hand, due to the differences in regulations, consumer cultures, marketing practices, and sales activities, brands including Sunplay, Acnes, Mentholatum Men's and Hadalabo, successful in Asia, were not planned to be introduced.

Between fiscal years 1998/99 to 2008/09, the total sales of Mentholatum rose from \$85M to \$292M. At the same time, the regional sales dynamics changed. Sales from the North American region in fiscal year 1998/99 accounted for 46% of the total, in the fiscal year 2008/09, they decreased to 27%. Sales in Asia, including Australia, on the

Sales by Region 1998/99 (\$85M)



Sales by Region 2008/09 (\$292M)



other hand, increased from 37% to 57%. The sales ratio in the U.K. region decreased slightly to 15%.

According to the financial report for fiscal year 2008/09, the net sales and operating profit (OI) for each region were as follows:

- US: \$75M (sales) and \$4.4M (OI)
- Canada: \$9.7M (sales) and \$0.23M (OI)
- M Mexico: \$1.7M (sales) and -\$1.5M (OI)
- U.K.: \$45M (sales) and \$3.8M (OI)
- M Asia Pacific (HK + MCL + Korea): \$111M (sales) and \$10M (OI)
 - Hong Kong (Domestic): \$16M and \$3.2M
 - China (Domestic): \$85M and \$6.6M
 - Korea: \$10.3M and \$0.5M
- Taiwan: \$24M (sales) and \$3.5M (OI)
- Malaysia: \$8.5M (sales) and \$0.5M (OI)
- Thailand: \$3.6M (sales) and -\$0.3M (OI)
- Australia: \$11.5M (sales) and \$1M (OI)

In all regions and countries, the sales and operating income increased significantly. Most of the companies that were in the red in the first ten years were able to be in the black by the end of the second. Both the sales and operating profit in the U.S. nearly doubled in the second ten years. As for the U.K., the sales increased three times and Taiwan four times. The biggest increases in sales and operation profits took place with MAP, by six times and seven times, respectively. Mentholatum's total operating profit increased to \$19.4M, including royalties (\$5M) from Rohto. The operating profit ratio was slightly lower because acquisitioned brand valuation loss was included. Mentholatum consolidated sales revenue reached \$108M in 2001/02, surpassing the \$100M target. In 2005/06, it recorded \$225M, far exceeding a \$200M mark. Three years later, it achieved \$292M in 2008/09, nearly meeting the \$300M level target. Overall the second 10 years was an era of the greatest progress in Mentholatum's history.

Chapter 4: Global Presence

2008 – 2019

Growth of Brand Business

The Mentholatum Company achieved rapid growth through the early years of the new millennium and continued to grow through 2018. The driving force was China, with its high GDP growth rate (of at least 10%) it was the center of business in Asia and emerged as the world's largest economy. Mentholatum had steadily expanded due to this incredible growth. In addition, plans continued to smoothly roll out in Hong Kong and other locations in East Asia. Growth in Taiwan, Malaysia, Singapore, Thailand and South Korea, which had previously been small in terms of sales and profits, accelerated and boomed (in some cases) during the decade between 2008 and 2018.

As Mentholatum began to grow its skincare brands, its focus shifted from OTC to skincare and cosmetics. With the addition of Dax, the cosmetics company in Poland acquired in 2014, skincare had risen to represent 71% of Mentholatum's sales and 65% of Rohto Group's sales by 2018/19. So, Rohto Eye Drops which represented the highest production and sales in the world, along with its new skincare lines, transformed Rohto Group into a global enterprise.

Market and brand expansion defined the 20-year period after Mentholatum's acquisition. As for the development of the brand, Rohto and Mentholatum's subsidiaries amplified their cooperation during this period. This chapter will detail the trajectory of growth, successes, and failures of all previously introduced brands and products. Hadalabo and Rohto Eye Drops, have had the strongest impact among the brands that

were introduced in the 20 years since the acquisition and have delivered results for the group as a whole, not only in Asia, but in European and American regions as well. The acquisition of Dax as well as its expansion into Russia and continental Europe will also be discussed.

Hadalabo

Hadalabo, introduced to the Chinese market in 2008, was renowned for the high brand awareness it held in Japan with its high quality and effectiveness, became explosively popular. Using its strong sales as a springboard, Hadalabo was introduced to other Asian markets, such as Taiwan, Malaysia, Singapore, Thailand and South Korea, from 2009 to 2011.

The brand had experienced huge growth, not only in China but also in other Asian markets. In addition, it had been promoted in Asian countries with the slogan "Nothing More, Nothing Less," using "Perfect & Simple" as the central message, just as in Japan. In China, Hadalabo's retail prices were set higher than those in Japan, aiming to market it as a premium product.

Advertisements and promotions were created for the entire MAP region, with a focus on Hong Kong and China. In response to the expansion of the sales region, those advertising and promotional elements were used in each country with or without alterations (as needed), while keeping



Hadalabo Product Line

pace with market conditions. In East Asia, including Japan, the message and image of Hadalabo was shared to improve synergy. Another major factor of Hadalabo's success was the ability to team up with Watson's, a popular Asian drugstore chain. Multiple TV commercials were also created and aired throughout Asia, featuring famous talents from Hong Kong, South Korea and Japan. This was also effective in raising the products' image.

In 2009, the sales of Hadalabo exceeded those of the introduction year by a huge percentage and grew sharply for many years after. In 2015, the gross sales in Asia reached their highest at \$137M.



However, sales greatly decreased in China for the following two years (from 2016/17 to 2017/18). This was partly due to a rapid change in consumer buying attitudes, shifting from brick-and-mortar sales to online sales. While sales recovered to the 2015/16 level by 2018/19, it entered a stage where Hadalabo's real value was put to the test, questioning whether it could ensure continuous growth going forward. As of 2018/19, Hadalabo sales

were meteorically rising in Taiwan, Thailand and Malaysia, becoming the number one product in sales for each country. There is no doubt that these products will be the driving force for the growth of Asian subsidiaries. The gross sales of Hadalabo throughout Asia grew in 2018/19 to \$71M (USD) in China, \$15M (USD) in Hong Kong, \$12M (USD) in Taiwan, \$14M (USD) in Thailand, \$12M (USD) in Malaysia/Singapore and \$12M (USD) in South Korea. In Malaysia, store sales in 2018/19 grew to number three, beating out noted foreign brands in the Female Mass Skincare Ranking.



Sales Trend of Hadalabo

Women in China were particularly fond of Hadalabo products and this showed in explosive short-term sales. Hadalabo's sales growth in countries with a large population of people with Chinese heritage, such as China, Hong Kong, Taiwan, Malaysia, Thailand, Singapore and Indonesia were remarkable. On the other hand, in other Asian countries like Vietnam, while sales capabilities were strong, it took some time to grow the Hadalabo brand.

The skincare business in South Korea is cutting edge and the country has become a major cosmetics market that releases influential products worldwide. Sales of foreign brands in South Korea had previously been low and together with Japan, it was said to be one of the most difficult countries to enter into the cosmetics market. However, with Mentholatum Korea's constant efforts, effective distribution strategies and promotional advertising, Hada-

labo's sales rapidly expanded through 2015. With Hadalabo as the major contributor, by 2018 Mentholatum Korea's total sales grew to \$22M (USD).

Following success in Asia, Aki saw the potential to sell imported Hadalabo products to Asians living in the United States. Starting in 2011, Asian distributors were utilized and sales grew steadily with almost no advertising, reaching nearly \$1M by the end of 2018/19.

By 2013, Mentholatum decided to introduce a new Hadalabo product for the United States market, with the intention to expand to Europe, transforming it into a true global brand. Prior to its introduction, the company carefully considered the product name, design, and formulation. Paraben-free versions were also being developed and launched in the region, though the products themselves were otherwise unchanged from the original Hadalabo products.

The brand name Hadalabo would be difficult for western consumers to understand, so the U.S. Marketing team created some possible names to use including Hadalabo Tokyo, Hadalabo Osaka, Hadalabo Japan and Rohto Hadalabo. Ultimately Kunio, the chairman of Rohto, chose Hadalabo Tokyo, with the famous brand L'Oréal Paris in mind.



Following success in China, American fashion and cosmetics-related magazine editors were invited to Japan. They participated in promotional activities, such as visits to company offices, factories, and R & D headquarters, as well as receptions in Kyoto, Nara and Tokyo. Based on these experiences, the editors each wrote favorable articles. However, no more articles followed and expenses were too exorbitant to continue the promotional activities. Sadly, the expected outcome fell short.

In the first year it was introduced, products were launched at 2,000 Walgreens stores and 800 Ulta stores, the latter being a chain specializing in cosmetics. POS increased alongside this introduction and results were positive. However, by the middle of 2015/16, POS growth began to



Ulta Store

stagnate due to weak product design, decreasing promotion, and the influx of new competing products. Sales declined and it was dropped from shelves after only two years. Digital marketing activities, both through magazine and video advertisements proved ineffective. Sales did not improve, even when discounts were offered.



After being removed from stores, products were still available online. Without any special promotions, online retail POS did not increase. In 2016/17, Mentholatum put Hadalabo Tokyo on Amazon and with some online sales management, POS and sales began to rapidly increase. The sales of the imported Hadalabo products were also added to Amazon. The increase in advertising and sales promotion by other major companies promoting themselves as using the moisturizing capability of hyaluronic acid was actually a help to Hadalabo, which was a true hyaluronic acid formulation. Consumers began to realize the potential held by the product. In 2018/19, annual sales reached \$1.5M in online sales alone. If this trajectory continued, it's possible that Hadalabo products could succeed in Europe as well.

Hadalabo Tokyo products, which were developed and first sold in the U.S., were subsequently introduced to Latin America and launched in Mexico, Chile, Paraguay,



HLT at Walmart in Mexico

Guatemala, El Salvador and Nicaragua. Efforts were placed on sales promotion in the early stages, especially in Mexico and Chile. This proved beneficial as sales in Latin America in 2018/19 reached \$0.9M, showing some signs of success for the brand.

The newly acquired Dax planned a large-scale launch of Hadalabo Tokyo in Poland in 2017, cooperating with Rohto and MUS. The launch featured a line that skillfully mixed products developed in the U.S. with products from Japan, which responded to consumers' expectations toward skincare products in the region. The first year of sales were conducted at 1,260 Rossmann stores, a widely popular drugstore chain in Europe, and sold nearly \$2.5M in six months, accounting for 10% of Dax's sales. Market reaction was positive and advertising and sales promotion efforts continued through 2018.



HLT at Rossmann in Poland

Having found success in Poland, the Hadalabo Tokyo brand was gradually introduced into other Eastern European countries using



the same products and introduction strategy.

Hadalabo Tokyo is considered to be the Euro-American version of Japan's Hadalabo brand. As of 2018/19, the success of Hadalabo Tokyo was not fully realized. Launches and sales expansion in Europe and America would be a challenge, but the intention was to create a global brand. In light of the rapid sales increase of Hadalabo Tokyo on Amazon.com in the U.S., Mentholatum U.K. planned to sell Hadalabo Tokyo on Amazon.co.uk, starting in 2019. The initial reaction was beyond expectation and stocks were in short supply, unable to react to the sudden demand for the product. They had no choice but to hold back promotions until they boosted the product supply.

Mentholatum U.K. originally began as an OTC company and marketed itself in a narrow category centered on Deep Heat and Deep Relief. It had a strong brand and market share due to that specificity, but growth was limited. Attempts to introduce different products to the skincare and eye drop markets, while seeking expansion, have failed. Hadalabo Tokyo on Amazon could be the opportunity for expansion into the skincare category.

Mentholatum's gross sales of total Hadalabo including Hadalabo Tokyo, were \$19M in 2009/10 but rose quickly to \$93M three years later in 2012/13, reaching \$110M by 2013/14. Sales in 2015/16 reached the highest point at \$143M. The total net sales of Hadalabo and Hadalabo Tokyo in 2018/19 were more than \$90M. With sales of \$115M in Japan by Rohto, this totaled more than \$205M, growing it into a global megabrand, serving as a huge driving force behind the growth of the Rohto Mentholatum Group.

Countries where Hadalabo is sold include Japan, China, Hong Kong, Taiwan, Thailand, Malaysia, Singapore, South Korea, Vietnam, Indonesia, and a test sale in Brazil. Countries where Hadalabo Tokyo is sold include the U.S.,

U.K., Mexico, Chile, Guatemala, Paraguay, El Salvador, Nicaragua, Poland, Romania, Serbia, Bosnia, Croatia, Macedonia, Bulgaria, Lithuania, Slovenia, and Saudi Arabia.

Rohto Eye Drops

Sales of Rohto Eye Drops in China increased to more than 3 million units per year in 1998 and steadily grew to reach 16 million units in 2013. When introducing a new product, the company had two options. Even OTC products required Rx registration first. The application and approval of new products became more and more strict, and obtaining a license for a newly formulated OTC eye drop could take several years. The other option was to release a “new” product, with an already-licensed formulation (generic product). Any change in formulation would require the Rx registration. Its planned strategy of expanding sales and growing through the introduction of new products could not be realized due to these circumstances and sales subsequently stagnated.

Products such as New V Rohto, Anti-bacterial and Kodomo Soft (for children) were being sold, but Rohto Namida and Rohto C3, would later be added as generic products due to difficulties in registering and obtaining licenses. In addition, Rohto Lycee was also added, using a differentiated target and concept, appealing to girls and young women.

The eye drops production line installed at the first building of MCL initially had an old Japanese filling machine as its central component,

meaning its production capability and quality control was limited. In 2013, a new, improved manufacturing line was created by constructing a new building. This second building had six stories to accommodate the increase in skincare products and a new eye drop production line was completed and put into operation. With the help of Rohto, this new production line met the higher GMP and production standards. Although improvement in the manufacturing had progressed dramatically, sales in China took a nosedive from 2013 to 2014. This was due to overstocking in the market, as well as aggressive advertising and sales promotion by competitors.

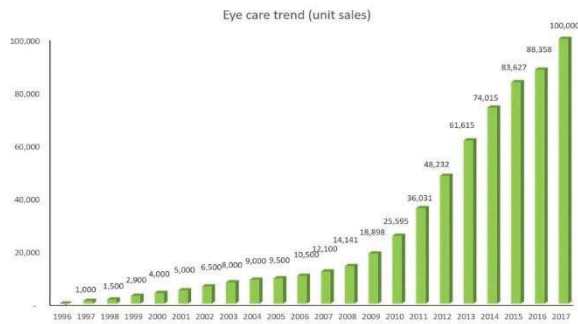
On the other hand, sales for Mentholatum Hong Kong and Mentholatum Taiwan grew steadily with the introduction of Rohto eye drops imported from Japan, as many Japanese products could get a permit easily. In Hong Kong, the market share was a mere 4% in 1996 but it grew steadily, and by 2018, more than 100,000 units were sold, gaining more than 50% of the market share.

In Taiwan, V Rohto Eye Drops were a medical product in the 1980’s and people were unable to buy it without a prescription. This restriction was lifted in 2000, allowing it to be sold over the counter. Using this as an opportunity, many Rohto products were imported and introduced at this time. In addition to V Rohto, Rohto C Cube, V Rohto Ex, Rohto Eye Flush, Rohto Zi, Rohto Lycee, Rohto MPS (contact lens solution), Rohto Digi Eye, and Rohto Gold 40 were successfully introduced, thus expanding sales. As of 2019, Rohto Eye Drops were the number one eye drops brand in Taiwan.

In countries where regulations were strict and Japanese formulations could not obtain a permit



Eye Drops Products in China



Sales Trend of Rohto Eye Drops in HK

easily, efforts were made to change the formulations to meet local regulations, utilizing Rohto’s cooperation. Involved in eye care since the beginning, the refreshing eye drops were well received in Indonesia and Vietnam. With the introduction of many new products, sales increased dramatically. Rohto was number one, not only in Asia,



Rohto Eye Drops in Asia

but worldwide with the expansion of Rohto Eye Drops into the U.S. It was officially recorded in the Guinness Book of World Records in 2012.

In the U.S., Rohto Cool, Ice, Arctic, Hydra (Lubricant) and Relief (Allergy) were launched and sales continued to grow. Rohto Cool Max, which was launched in 2013 as a new product, became the number one product in sales several years later. However, the increase in Cool Max caused a gradual decline in Cool sales. In the case of Arctic, the cooling sensation of the product was too strong for American consumers and was not differentiated enough from Cool and Ice, leading to lower consumption.

In the decongestant eye drop category, Men-tholatum obtained a nearly 12% market share, but products for dry eyes were necessary to



Rohto Eye Drops in the US

achieve further growth. In order to enter the dry eye market, a fifth-generation eye drop for dry eye was developed in collaboration with RMRL and Rohto’s R&D, utilizing the fourth generation version as a starting point. This colorless, transparent eye drop solution utilized a blend of sesame oil and special surfactants designed to address problems in the aqueous layer, lipid layer and mucin layer, based on the physiology of tears. Clinical trials outperformed Alcon’s Systane, the number one dry eye drop in the market, sold worldwide. The drops quickly eliminated dry spots and the effects lasted for more than eight hours. So, Rohto Dry Aid was launched in 2016 with great expectations. The introduction of the product into markets went well and distribution to major and minor retailers was steady.



The dry eye market in the U.S. includes major ophthalmic pharmaceutical companies, which have been selling products for many years and have built strong sales through doctor recommendations. It was not easy for a latecomer to enter the market, let alone produce high sales. So as to

not repeat the previous failures of Migraine Ice, Pain Patch and Oxy Clinical, digital marketing, TV advertising, and promotional activities were utilized from the beginning, helping Rohto Dry Aid settle into the market. During the first year of TV advertising the POS of not only Dry Aid, but other products gradually increased. However, the effectiveness of TV advertising began to lessen in the second year.

In 2018, Bausch + Lomb announced the launch of LUMIFY™ into the U.S. market, a new Rx to OTC red eye remover. Developed by doctors, the active ingredient, brimonidine tartrate had been used for the treatment of glaucoma. This ingredient had a decongestant effect, reducing red eyes, much stronger than other conventional active chemicals such as naphazoline and tetrahydrozoline. In addition, it claimed to not cause a rebound effect even if used continuously.

The distribution of LUMIFY™ went quite well and the sales had been increasing dramatically with strong A & P support. Its retail price started two to three times higher than the competitors in the category, including Rohto. It was an innovative new product for red eye reduction. Increased sales of LUMIFY™ affected the sales of Rohto eye drops, gradually reducing its growth.



Approximately four years before the launch of LUMIFY™, Ora Laboratories made an inquiry with Mentholatum regarding the co-development of this product. Aki, knowing the high risk and extensive cost in developing this kind of switch OTC product, communicated this offer to Rohto's R & D. After discussing the opportunity and the risks involved, with cost, FDA approval, as well as consumer expectation, Rohto was not interested.

Sales of LUMIFY™ skyrocketed and gained a large market share within a year. Seeing the success of LUMIFY™, it was obvious that an opportunity had been missed. Aki had a complex feeling as he had had many failures in the introduction of big new products. He thought, "why didn't

Mentholatum/Rohto join the co-development of LUMIFY™?" Of course, it was too late. It was an example of the Japanese saying, "Nigasita sakana ha Okii" or "the one that got away." New product development is always a gamble!!



To cope with this new competitive market situation, new products with more specifically targeted usage, namely Rohto Digi Eye, Rohto Beauty and Rohto Jolt were launched. As of 2019, positive results have not yet been produced,

so further efforts will be required to increase shares in the gigantic and competitive U.S. market.

Gross sales of eye drops in the U.S. steadily increased to \$8M, \$11M and \$18M in 2010/11, 2014/15 and 2018/19, respectively. Although sales increased, imports from Vietnam were halted by the FDA in 2014, leaving Mentholatum with no choice but to have an independent recall. This was due to a question about quality control in the Vietnam factory, and the only way to resolve the situation was for the plant to pass a U.S. FDA GMP inspection.



The factory in Vietnam dealt with this issue alongside the QA/QC departments. Fortunately, they managed to pass this first FDA inspection and restart sales. However, the FDA strictly monitored not only the Vietnam factory but also Rohto's eye drop factory in Japan, forcing them to make GMP improvements as well. Through years of relentless effort from the QA/QC and research and development departments, the issues were finally resolved and eye drops production continued at the Vietnam factory and the Ueno factory in Japan. Regulations continue to get stricter year after year and improvement and innovation will continually be required.

Initially after launching Rohto Eye drops in

the U.S., it was expected that there would be complaints from authorities regarding the use of menthol, so different preparations had been made to take countermeasures. However, due to the fact that the number of units sold was small, no inquiries or product recall problems ever arose. Seventeen years after the launch, 14 million units and 32 million units have been imported from the Vietnam factory and Rohto's Ueno factory, respectively. Nearly 46 million units have been sold in total.

Because the products developed and introduced to the U.S. share many commonalities with those in Latin America and Canada in terms of regulations, eye drop usage habits are similar. The eye drops that had been released in the U.S. have been successively introduced and expanded on both continents due to this link.

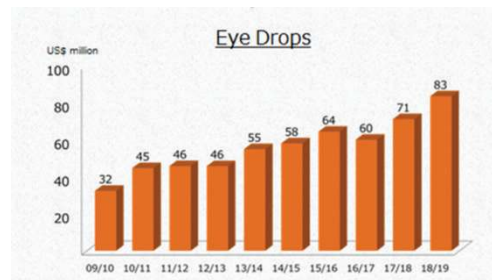
The Latin American market had already started with Mentholatum Ointment, Deep Heating Rub, Oxy, and lip care products. Mentholatum believed the market was ready for new products. The introduction of Rohto Eye Drops in Mexico was planned for 2018, following the launching of Lip Ice and HadaLabo Tokyo. After the example seen in the U.S., other countries began obtaining permits for Rohto Cool and Ice eye drops. Distribution in Mexico went smoothly and the market reaction was positive. Consumer response was beyond expectations. Mentholatum had its eyes set on taking over the market using continuous advertising and sales activities along with digital marketing as its main weapon. As for the markets of Canada, Chile and other Latin American countries, applications were made to acquire product permits.

Sales of eye drops through Mentholatum in Asian, U.S. and Latin American markets have grown steadily. Gross sales increased from \$32M in 2009/10, to \$58M 2014/15, and \$83M by 2018/19.

Eye drops expansion into the European region is planned, but it will take time, partly due to differences in regulations. The development of eye drops in continental Europe hinges on whether permits can be obtained through product applications. In Georgia, Mentholatum's distributor casually expressed interest in importing the Amer-

ican version of the eye drops. So, the permits for Rohto Cool and Ice were obtained by preparing paperwork as well as being in close contact with and persuading regulatory authorities.

Unfortunately, the scheme to sell through ophthalmologists did not work and sales were minimal. It turned into an example of how hard an introduction can be when product permits and marketing plans are not working on the same wavelength. Owing to the uniqueness of Rohto's products, ease



of application and trust toward Japanese products in general, the Russian market holds great opportunity for Rohto eye drops. As of 2019, preparations for product permits were being made.

In the Middle East, Eastern Europe and the countries of the former Soviet Union (FSU) where other Mentholatum companies are doing business, efforts to obtain product permits were underway as of 2019. Market expansion in western European countries, namely the U.K., France and Germany, is also anticipated. As of 2019, the countries where Rohto Eye Drops are sold included Japan, Hong Kong, China, South Korea, Taiwan, Thailand, Malaysia, Singapore, Myanmar, Vietnam, Indonesia, Cambodia, Laos, Bhutan, Mongolia, U.S., Mexico, El Salvador, and Georgia.

Oxy

The Oxy brand was the strongest acne treatment among OTC products, but its side effects were quite strong. There was concern that it may affect consumer interest. In order to improve this, a new product was developed which would

reduce side effects. Through new technology, Oxy Clinical used BPO (benzoyl peroxide) confined in a micro capsule for sustained and long lasting release. According to clinical data, the product was proven to be substantially effective. Oxy Clinical was launched in 2010.



Buyers and retailers showed great interest and excitement about the new product and distribution to stores went smoothly. The Mentholatum Company put Oxy Clinical into the market with confidence, attempting to reverse the brand's declining sales trend. Unfortunately, despite a variety of promotional activities, its consumption at retail settings did not grow as hoped. Although TV commercials were made and aired, the declining POS failed to rise. So, a year and a half after being launched it was difficult to secure shelf space and Oxy Clinical was gradually discontinued by 2012. Prior to its release, thorough analysis and preparation was made in an attempt to learn from the mistakes of Migraine Ice. Nevertheless, in the same way, it gave the market some impact, but was unable to succeed due to similar problems pertaining to brand naming, package design, and retail price.

Shortly after the experience with Oxy Clinical, the market in the U.S. was trending more toward preventive acne care versus treatment. MUS undertook different initiatives based on this new sales trend. Seeking to create a prevention line of products with Oxy, Mentholatum developed and introduced facial cleansers and moisturizers. The company also changed its packaging again, this time according to the preferences of women, which formed a slight majority among consumers.

However, many consumers were lost during



the many changes to the package design and marketing.

The Oxy product line unfolded into two groups: Max, with a high BPO-centric effect mainly around traditional treatment and prevention, focused on ease of use and centered-around facial cleansers. This diluted the message of highly therapeutic products, which had been the traditional image of the Oxy brand, causing the brand's position to go off course. The prevention line could not compete against the major skincare manufacturers (i.e. Neutrogena and Kao), so sales stagnated. Best efforts were made with the Max line, but overall sales continued to decline.



Historically, Oxy pad products developed during the GSK era, had a strong presence. They



were BPO-free formulations of salicylic acid dissolved in alcohol and infused into soft circular paper (pads). These pad products were conveniently portable and well accepted by consumers, consequently securing high sales. In 2012, Oxy boasted

the most sales among pad products, including those released by other companies. However, their top position was gradually threatened, partly by PL products.

New commercials were created every year for advertising and sales promotion as sales declined, but their effectiveness also weakened year after year. It became more difficult to use television due to Oxy's low profits and gradually sales were being maintained just through print coupons (FSI) and in-store promotions in the form of bonus packs. It had turned into a dire situation.

Gross sales, which were \$21M in 2010/11, became \$15M in 2015/16 and further decreased in 2018/19 to \$12M. The Marketing Manager of the Oxy brand changed during that time. The marketing approach used had a retro feel TV commercial, targeting moms who were consumers in the past. Mentholatum again developed a new series of products and sold these through distributors, but these were almost entirely not accepted by the market.

GSK and the Non-compete Clause

When Mentholatum bought Oxy from GSK, there was a clause in the contract, banning the activities of competitive products. It restricted GSK from selling any kind of acne products. Several years later after the acquisition, Dr. Catherine Shone, VP of Worldwide Business Development of GSK Consumer Healthcare, contacted Aki and requested a visit to Mentholatum. Catherine and Aki knew each other through the Consumer Healthcare Product Association (CHPA), where they were both on the Board of Directors.

When Aki met with her, he knew the intention of her visit. It was about the non-compete clause. Aki wondered why GSK wanted to introduce an acne product, because he knew GSK did not have any acne products at the

time. Catherine didn't say anything specific about a new brand or product, she just asked if Mentholatum would allow the breach of the non-compete clause.

Talks between Catherine and Aki went on in a friendly atmosphere. Aki thought it was difficult to reject her request and instead he asked for a quid pro quo. Both agreed that GSK would pay \$1.5M to Mentholatum for the allowance it was making. GSK bought Stiefel Laboratories in 2009. As a result, they wanted to continue to sell the PanOxyl brand Stiefel owned. Although it was not welcomed to have a new competitor, it reduced the acquisition price of Oxy by \$1.5M.

Around the same time, the brand manager of Oxy at Mentholatum told Aki that he wanted to resign. Aki didn't understand the reason as he thought the manager was happy working for the company. However, if he wanted to leave, looking for better business conditions, there were no way to stop him. Soon after he left the company, Aki received a phone call from him. He said "I want to come back to Mentholatum." Aki asked "Why? Is Mentholatum so comfortable for you?" The former employee said, "I was hired by GSK as a brand manager of PanOxyl, but there is no A&P budget for it. I made a mistake. Please allow me to return to Mentholatum." His desperate approach made Aki smile, knowing the former employee was regretting his decision to leave Mentholatum. Obviously, there was no way to allow him to return. There was no communication after that. Anyway, it's a small world! It was a typical example of people coming and going in the same industry.

PanOxyl revamped its package design and tried to strengthen its position by focusing on the effectiveness of BPO. Sales increased for a couple of years, however, like Oxy, they went up and down due to the declining consumption trend of the total acne market.

While it is positioned as an OTC acne product, Oxy is also a facial skincare prod-



uct. Major skin care companies like Nivea and Neutrogena were strong in the market, and therapeutic products that aimed for efficacy in the OTC segment, that Mentholatum was specializing in, did not grow. Only Differin, introduced in 2016 by Galderma as an Rx to OTC product, showed good sales, partly due to the effect of the initial advertising and sales promotion investment.

Differin Gel 0.1% was originally approved in 1996 as a prescription product for the treatment of acne vulgaris and it was the first in a class of drugs known as retinoids, to be made available OTC. Differin had a mechanism of action that is different from BPO, but it had high therapeutic efficacy. It was also believed to have quite a number of side-effects. However, there were continued investments toward advertising and sales promotion since it had been introduced, so it rapidly gained market share. Oxy sales then decreased further.

The POS of the entire U.S. acne category continued to underperform compared to the previous year. Oxy did its best to compete in this environment, but it was gradually taken off the shelves of major retailers, and item counts decreased. At its zenith, at least 12 product items were filling the shelves of Walmart and Walgreens, but this gradually decreased. By 2016/17 through 2018/19, it had decreased to five to six items in total and two to three items at major retailers. MUS faced problems regarding its marketing capability and upfront investments, which are necessary for advertising and sales promotion activities for products like Oxy. It is also projected that it will further decrease in the future.

Even in the U.K., the aim was to recover sales by changing the color of packaging to a black tone for men, similar to those in the U.S. Disappointingly, it was not accepted by consumers and it gradually lost its position in the market.



ment of acne vulgaris and it was the first in a class of drugs known as retinoids, to be made available OTC. Differin had a mechanism of action that is different from BPO, but it had high therapeutic efficacy. It was also believed to have quite a number of side-effects. However, there were continued investments toward advertising and sales promotion since it had been introduced, so it rapidly gained market share. Oxy sales then decreased further.

Oxy continues to be sold as a product for acne in countries other than the U.S. and U.K., namely Canada, Mexico, Colombia, Paraguay, El Salvador, Guatemala, Ecuador, Honduras, Costa Rica, Nicaragua, the Dominican Republic, Peru, Panama, South Africa, Australia, Malaysia, Thailand, and Singapore. As of 2019, it was growing well as a highly effective BPO-blended product in Asia. However, sales have stagnated or decreased in countries outside that region.

In Japan, China, Vietnam and Indonesia, where the Oxy brand has been introduced as



Oxy in the UK and S. Africa

a men's product, it is believed to still have selling potential and is maintaining strong sales. It has also been introduced as Oxy Men's in Myanmar, Cambodia, and India but as of 2019 it was struggling in these countries.

It had \$44M in total gross sales in 2008/09, but it decreased to \$26M by 2018/19. That same year, net sales in Asia, the U.S. region and Europe were \$7.3M, \$17M and \$1.2M, respectively.

It cannot be said that the acquisition of the Oxy brand has been entirely successful, looking at the history of it. One of the factors was that Mentho-



OXY Men's and Mentholatum Men's in China



latum was unable to increase sales in the U.S. and U.K., where most efforts were directed. Perhaps to revitalize the Oxy brand, there will need to be a return to the original positioning of the product as therapeutic. By developing products with high efficacy and no side-effects with skillful marketing the brand can be rejuvenated.

Lip Care Brands

Softlips

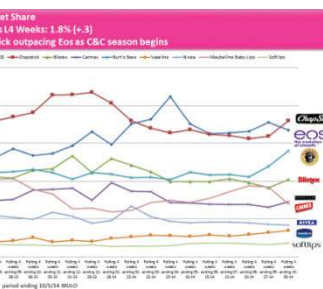
The tragedy of Softlips came after 2010/11, when the highest sales and profits had been achieved since its release. Evolution of Smooth (EOS) was a company in the U.S. that created a groundbreaking lip balm product, debuted in 2009. EOS lip care products had an egg-like circular shape that broke with the image of traditional lip balms. The application surface was half-circle-shaped, so it was a rather bulky shaped lip balm. However, it was a product that brought curiosity and excitement to consumers who had been used to traditional tubed lip balms.

Even Mentholatum had been paying attention to its growth right from the very start, but to the marketing department it was a gimmick product that merely aimed at novelty. The

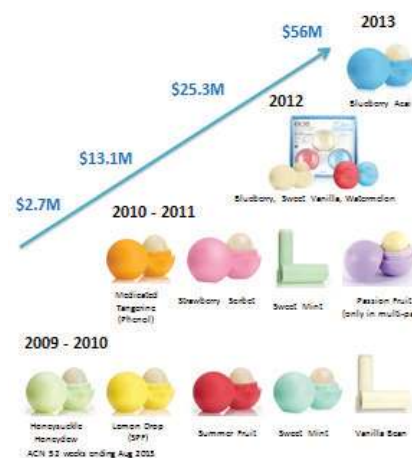
POS of EOS grew through the initial advertising investment, but the MUS marketing department did not pay close attention because they expected it to quickly die down. Contrary to the prediction, EOS was extremely favored by the market and it was accepted as an innovative, new product, and rapidly grew in sales.



The position of Softlips in Target stores as the most consumed lip care product quickly turned around and was instantly stolen by EOS. Softlips was the most affected, partly because its product concept and positioning was close to that of EOS. The growth of EOS was vigorous, reversing the market share of Chap Stick, which had been synonymous with lip balms in the lip balm market for many years. Not only at Target stores but at every store where it was sold in the U.S., EOS showed its presence through overwhelming distribution and shelving. By 2014, it rose up and became number one in the U.S. lip balm market.



The rapid fall of Softlips sales prompted





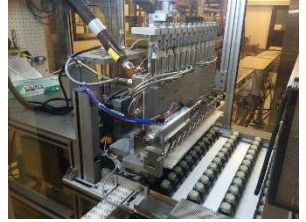
**Softlips Intense
Moisture**

quickly developed and launched. However, this slight change could not reverse the situation and it ended in failure.

countermeasures. The marketing team at the time presented their proposal to launch a Softlips with a stronger moisturizing effect. This was meant to respond to consumer surveys, from which Softlips was said to have a weak moisturizing effect. Softlips Intensive Moisture was



Softlips Cube, a crystal-like cube shaped lip balm, with a square lower half and half-sphere upper half, was launched in 2015. It had a novel and premium look, but cost of goods was high so the price was set higher (than EOS at the time). It was positively received by distributors and dubbed a “homerun product.” Shipments proceeded favorably and successfully reached stores. Efforts were made to reduce cost of goods through the creation of a new production line for Cube. However, the delay in completion of the new line, caused the delay in lowering the cost of goods. This caused the need for a higher retail price. Another factor effecting sales might have related to the transparent crystal-shaped cap, which made the contents seem small. Consumption at stores hardly increased, so efforts were made to advertise through TV commercials and other promotions including the use of Hello Kitty™. The timing was



New Production Line for Cube

slow and POS did not proceed as expected. It was unable to reach the consumption level demanded by the stores. As a result, it was discontinued in almost all stores after two years.

The product itself was novel and easy to use and had a lot of qualities that were favorably received in the overseas markets. In Brazil, Chile, Mexico and some other countries in Latin America, as well as Poland and Russia, it was launched following the U.S. release, and it sold with positive reception. It was concluded that while it did not succeed in the U.S., this was not due to the product itself but a problem of how it was sold, marketed and priced.

Overall lip balm sales in 2015/16 recovered slightly following the launch of Cube. Developments were made to narrow down lip balm operations to just Cube and replace traditional slim products almost entirely. However, due to weak actual consumption of Cube, it was losing support from U.S. distributors and consumers by 2016/17. Starting that same year through the following year, lip balm sales for MUS reached their lowest due to returns of Cube and loss of Softlips Slim distribution. Softlips consumers were still demanding a slim product, which is why the sales team, with Derek Hill at its core, worked diligently to revive distribution of Softlips Slim. By 2018/19, sales recovered slightly to \$5.4M because of these efforts, however they were still dramatically lower than the \$20M of 2010/11.

Softlips Oasis, a product pursuing moisturization through a new technology which infuses water into the lip balm, was developed and launched in 2019. Evaluation by distributors was not very positive, causing it to struggle to secure retail stores.



The lip care business in Latin America developed with products sold in the U.S. as its foundation. Mentholatum lip balms were launched in most Latin American countries under the Lip Ice brand using Softlips formulations. Only Cube was introduced with a distinction between Softlips Cube and Lip Ice Cube. In Brazil, Rohto Mentholatum do Brazil was established in 2011, with the intention of entering the lip balm market. In 2016, Cube was skillfully introduced and developed as a premium product, garnering rather high praise and reception.

Looking at the history of Softlips, its contribution to the growth of Mentholatum and specifically the U.S. business, is undeniable. Through its ups and downs, TV commercials were made and various promotional activities attempted including the introduction of Organic and All-Natural versions of Softlips. Disappointingly, these were not well received. Sales recovery of U.S. lip balms will be difficult and achieving the numbers from Softlips' heyday will require innovation. This innovation may be found with Softlips or perhaps with a new product. Mentholatum U.S. will need to look at the total lip care business to find the answers.

Countries where Softlips Cube/LipIce Cube are sold include U.S., Canada, Mexico, Chile, Brazil, Paraguay, Colombia, Peru, El Salvador, Guatemala, Ecuador, Honduras, Costa Rica, Nicaragua, Poland, and Russia.

Chu-Lip



The sudden appearance and rapid growth of EOS was reported at the Mentholatum's Board Meeting in its early stage. The information was shared and well understood throughout the group. In Japan, the Mentholatum branded lip balms, were a category leader. Although EOS was not in the Japanese market, Rohto developed and introduced a similar sphere shaped product, Chu-Lip in 2015. The retail price was high (over 600 yen) and Chu-Lip was not able to attract many consumers, making sales softer than expected. Chu-Lip was also introduced in other Asian countries as well as Russia, without good sales outcomes. It was concluded that the Asian market was full of interesting and popular lip balms. With this environment, Chu Lip could not create the same impact that EOS had on the U.S. market.

After the slow sales of Chu Lip, the marketing and R&D team at Rohto tried to develop some new products utilizing its unique container and production techniques. In 2015, Deo Ball was created as a new antiperspirant deodorant. While the design and shape was unique, sales in Japan were disappointing.



Chu Lip, Deo Ball, and Secret Freshies

In the U.S., instead of introducing it as a Mentholatum product, Derek took Deo Ball to

Target, promoting its possibilities as a store brand. The buyer at Target saw the potential of the product and discussed it with a sales representative from P&G. After investigating, P&G decided to introduce a Deo Ball type of product into their Secret line of deodorant. The product, Freshies On-The-Go was introduced in 2017. Naturally, Mentholatum became the supplier of the unique containers. It was a long path from Chu-Lip to Secret.

In the first year, Mentholatum sold 2.14M containers (\$4.5M). During the second year in 2018/19, Mentholatum sales increased to 5.1M containers (\$10.8 M). The sales contributed greatly to the three years of stagnant sales in the U.S. It was an example of Japanese saying, “Hyotan kara koma” (something unexpected has happened).

Summary

Prior to Rohto’s acquisition of Metholatum, it was selling lip balms. This lip care business centered mainly in the U.S., utilized marketing alongside Mentholatum ointments. Since then, Mentholatum’s lip care business has grown to provide the highest contribution to sales and profits. This is partly due to the effect of finding success in Japan and further focusing on strategic products when the company expanded into China. As of 2019, the lip care business in China was reaching its greatest sales and profit in its history. The local sourcing and in-house production kept costs low. Effective marketing and setting a high retail price created the formula for success.

In other Asian countries, each subsidiary selected and introduced the products that were suitable to the locality, from among the products Mentholatum had developed and sold in China and Japan. The lip care business under the Mentholatum brand grew as primary strate-

gic products for RM Vietnam and Indonesia (PT Rohto), which are Rohto’s direct subsidiaries.

Lip balm gross sales in Mentholatum as a whole (Lip Ice + Softlips + Mentholatum Lip balm) were \$118M in 2008/09 and increased to \$176M by 2013/14. The growth fell temporarily to \$164M in 2016/17 before recovering immediately thereafter. Softlips sales decreased, but it was able to achieve a record \$233M in sales, the highest in the company’s history, in 2018/19.

As of 2019, there are more than 50 countries where the lip balms were sold. They can be found throughout Asia, North America, South America, Eastern Europe, South Africa and India. They have become the most iconic



Dax Perfecta Softlips Cube

products of the Mentholatum business.

Even in Japan, the lip balm business has continued to grow steadily and it boasts sales second only to those in China. While Rohto Group’s OTC eye drops had the highest sales volume in the world (2012), within the Rohto-Mentholatum group, the lip balm business is considered to be number one, competing with two of the market’s largest brands, Chap Stick and Nivea.

Patch/Topical Analgesics

Japan’s Hisamitsu Pharmaceutical Company welcomed an American as its U.S. president in 2013. In that year, the company started investing \$20M in advertising and TV commer-

cials to sell topical analgesics. These efforts mainly centered-around patches and continued each year. Hisamitsu's Salonpas patch grew in sales and market share to compete with Icy Hot, a product by Chatterbox, which was a major player in the category.

Hisamitsu's strategy of investing in a concentrated manner in specialized products, is one example of a successful approach to entering the highly competitive U.S. market. It is probable that their success is precisely because they were a specialized manufacturer of patches. A large-scale business like Hisamitsu Pharmaceuticals concentrating on a narrow segment by acquiring pharmaceutical companies even in the U.S., allows for delayed results from large investments. With the approach of investing toward growing the brand and products in the European and American markets, while being aware of the deficits that would span several years after introduction, it is possible to effectively increase sales in the short term and secure a stable position in the market.

Affected by the competition from Icy Hot and Salonpas, Mentholatum's patch products' sales and POS declined. The company sought to develop new products and compete using a low-price strategy to introduce three types of single patches. A new production line was created in China for patch products. However, the cost savings were not realized and the competition immediately caught up. Mentholatum was unable to achieve continued sales growth and POS for all patches decreased.

In 1989, external anti-inflammatory analgesics held a share of nearly 25% of all U.S. sales for Mentholatum. By 2009, sales were at \$3.9M, comprising Deep Heating Rub at \$1.6M and Patch at \$2.3M, accounting for only 5.3% of U.S. sales. While Deep Heating Rub sales declined, receiving pressure from competition, patch sales increased. In order to strengthen rub products, new lines were developed and sold from 2010 to 2011. These included Ironman products, which consisted of rubs, sprays,

roll-ons and patches and were meant to be used in sports, and Projoint, products for arthritis containing a blend of glucosamine and chondroitin, in the form of capsules, rubs and patches, targeting consumers 55 and older. Unfortunately, these new products, while excellent, were unable to sufficiently secure distributors. The external anti-inflammatory analgesic products under MUS were gradually cut down to Wellpatch, while Deep Heating Rub was removed from the shelves of major retailers by 2011. Sales transitioned from rub to patch products and by 2011/12, it achieved its highest net sales at \$5.6M.

Due to a downturn in POS in 2017, there was a proposal to switch Wellpatch Single Patch over to Equate Patch, Walmart's store brand, and this inevitably went through. As a result, Wellpatch sales in the mass channel became limited and sales in 2018/19 decreased to \$1.1 M. It was an unfortunate outcome that MCL's wonderful production line, into which much effort had been placed, produced almost entirely PL products for the U.S.

On the other hand, thermal type products (using iron oxide) were introduced to the

market in the U.K. in 2004 and these were successfully developed using the Deep Heat brand. Sales grew thanks to high retail pricing and the powerful brand. These products were able to secure high sales and profits in the U.K., achieving \$5.5M in 2018/19. They were then introduced into Middle Eastern countries, Africa and Australia, and sales grew steadily. Mentholatum U.K. purchased Japanese OEM products at the start due to a problem with quality, but by 2019 switched to Chinese OEM products, further securing high profits.

Besides patches, Mentholatum U.K. sold supplementary products, as they searched for





Regenovex

new non-OTC materials in order to strengthen the product line. As a result of examining it as a global expansion project, the new supplementary product Regenovex was developed and introduced to the market. This product which used New Zealand green mussel extract, obtained through a proprietary manufacturing process, was effective in providing relief to various body pains. Three products (capsule, gel and patch) were introduced in 2009. While it had a unique story as a product, there was not enough clinical data on its efficacy. Regenovex products were quite well received in some of the countries in Europe, the Middle East and Africa where they were sold. However, they were not able to achieve significant sales growth due to high market prices.

Several years later, Mentholatum U.K. launched unique new products including Deep Heat Rollerball in 2016 and Deep Freeze Glide on Gel in 2017. Using a marketing strategy to differentiate the use of Deep Heat and Deep Freeze products, allowed the company to gain a strong market share in the U.K. The strategy also included massive promotional campaigns at marathons and other sporting events, with the message “Mind Your Back.”

The sale of external anti-inflammatory analgesics in the U.K. as of 2019, which included four products, Deep Heat, Deep Relief, Deep Freeze and Deep Heat Patch continued to grow and constituted 84% of all sales. These delivered the most successful performance in this segment within the R/M group.

In the Asian market, patches were developed early on and many products were being sold in the market. Mentholatum introduced and sold patch products in Taiwan, Hong Kong, China and South Korea in the early 2000’s. The especially effective nonsteroidal anti-inflammatory (NSAID) patch, was introduced in South Korea

as Deep Relief Patch in 2019. While the company took on the challenge of developing NSAID products in Europe and America, as of 2019 only Deep Relief Gel, an ibuprofen formulation developed in the U.K., was being sold in Europe.

Patch products achieved \$17M in gross sales within Mentholatum as a whole in 2008/09, decreasing to \$14.4M by 2018/19. Gross sales of topical analgesics (including all product forms) for Mentholatum as a whole, grew somewhat from \$62M in 2008/09 to \$75M in 2018/19.

Regions and patch products sold are as follows:

- U.S.: Heat Patch, Capsaicin Patch, Migraine Ice Patch, Menthol Patch, Wellpatch single, and Equate Patch single
- Brazil: Heat Patch
- Middle East: Heat Patch and Freeze Patch
- Australia: Heat Patch
- Asia Region: Taiwan, China, and South Korea - menthol patches (under various names), NSAID patches (under various names), Cooling patch, and Warming Patch.

Sun Care Brands

Sunplay and Skin Aqua

Sunplay, introduced to China in 2001, was then successively introduced to many Asian countries, including Hong Kong, Taiwan, Malaysia, Singapore, Thailand, Vietnam and Indonesia, and steadily increased in sales. Launched during a



Sunplay in the 2010’s

time when the negative effects of ultraviolet rays on skin were not sufficiently and widely recognized, it was developed mainly around products that emphasized their high SPF value (up to 130). To be used at the beach or poolside, it prevented strong ultraviolet rays. Sales grew slowly at first and then rapidly increased over time, partly due to the positive effects seen by consumers after continued use. Due to the fact that ultraviolet rays accelerate aging of the skin, the Skin Aqua series, which advertised a great feeling after application, was introduced by Rohto in 2009. It was promoted as a skincare product that prevents harm due to ultraviolet rays hitting the face and hands. Skin Aqua products were well received by the market and sales grew



Skin Aqua



rapidly. Thanks to the promotion and development of these two brands, with varying uses, the sales of sun care products picked up momentum. Initially, the sales of Sunplay, which were mainly outdoor products, grew. After its introduction, Skin Aqua, which was for daily use, quickly grew to surpass the sales of Sunplay. In addition, Sarafit, a blend of Solar-ex-3 Complex that had been improved upon in 2015, was introduced. It went onto the skin so smoothly, it felt as though nothing was there.

Both sun care and lip care are mostly seasonal businesses, one focused on summer the other during the winter. This allowed promotional spending and marketing activities to be focused and sales grew.

Gross sales of Sunplay for the company as a whole in 2008/09 were \$15M, but grew to \$100M by 2018/19, becoming a significant contribution to the growth of Mentholatum.

Sunplay products were only introduced in Asia,

partly due to regulatory issues regarding their formulation and the intense competition in the market with major products in Europe and the U.S. Introduction into South Korea was delayed, but in many Asian countries it achieved the number one market share. Rohto also actively developed new line extension products for Sunplay and Skin Aqua in Japan. Soon after they were launched in Japan, they were also launched in other Asian countries and grew throughout the market.

Beyond Asia, Sunplay was also introduced in Mexico, but as of 2019 it had not yet achieved significant results.

Dax Sun and Hadalabo Toyko Sun

In Europe, Dax Sun, a sun care product from Dax, performed well, with gross sales in 2018/19 at \$6.5M. It helped prove Dax's product development capabilities and evaluation systems for product launches throughout Europe. In addition, HadaLabo Tokyo Sun, developed as a product for the Hadalabo Tokyo line, is expected to have market interest.



Dax Sun

The sun care business is an area where further growth can be expected through the expansion of product development. Rohto's R&D took on the challenge of developing products for the Wallgreens-Boots Alliance since 2016. Unfortunately, as of 2019 it has yet to deliver good results, but the presence of R/M Group in the sun care business has gradually gone global.

Acnes

Acnes was a brand introduced to the Asian market in 2005, four years after Sunplay. Just like Sunplay, it was not introduced to the European and U.S. markets. This was because Oxy, which had already been acquired, was being positioned as an acne brand in Europe and North American. It seemed too late to join the market as a skincare-type product and the marketing department got cold feet. Conversely, in Asia, the Oxy brand was merged with Acnes or sold under the Acnes brand.



Acnes in the 2010's

Acnes saw a steady increase in sales after being launched in China, Hong Kong, Taiwan, South Korea, Malaysia, Singapore, Vietnam, Thailand and Indonesia. In Malaysia and Singapore, sales did not grow as expected, but steadily grew in China, Hong Kong, Taiwan and South Korea. It had been actively promoted as a medicated product, especially

in Taiwan, where it achieved strong annual sales growth. Acnes skin patch was developed independently in Taiwan and contributed to the sales growth of the Acnes brand. In 2018/19, Acnes had the number one market share in the facial anti-acne category in Taiwan.

When introduced in South Korea in 2008, with concentrated sales promotional activities, it reached 15% of total sales, becoming an important commercial product. Sales continued to grow, with its sales ratio reaching 17% overall by 2018/19, making South Korea another Asian country where Acnes has been successful. Sales gradually increased in Thailand as well, reaching \$3.3M in 2018/19, second only to HadaLabo.

No new groundbreaking acne products were

developed, partly due to the absence of growth of the entire acne care market in Europe and Asia. Slight changes and upgrades to package designs and TV commercials were made for previously launched products and were utilized universally throughout the Asian market. Patch products and facial cleansers and pads which utilized charcoal were developed and launched, contributing to an increase in sales. The gross sales of acne products for Mentholatum as a whole increased from \$17M in 2008/09 to \$35M in 2018/19.

Mentholatum Men's

Mentholatum Men's, independently developed by MCL, was introduced to the Chinese market in 2004/05. Because the men's skincare market itself had yet to be fully developed, significant and specific efforts were required to promote both the brand and the category itself. Mentholatum Men's continued its growth steadily after its launch, in part due to sales efforts and support from MAP's management team. However, that growth stagnated after seven years. This was largely due to the advertising and promotion by competitors and the market's constant demand for new products.



New
Mentholatum
Men's Line

A full transformation took place in 2011 to revitalize sales. It was a bold change, with the products adopting new packaging, a new product line and a new spokesperson. Mentholatum Men's was organized into three areas: oil control, hydration and rejuvenation. Sales rose again, in part due to these efforts. Starting in 2018, it regained popularity among consumers, partly due to the effect of a bold advertising and promotional campaign that used characters from Disney's Star Wars. Mentholatum Men's was also introduced in Hong Kong and Taiwan with steadily increased sales.

While Mentholatum Men's was not introduced by Rohto, as most products were, Mentholatum's marketing and technology teams took on the challenge of its development, and its success provided the confidence necessary for the work on other skincare products. Mentholatum Men's gross revenue for Mentholatum as a whole in 2008/09 was \$20M, but it grew significantly to \$114M by 2018/19. Mentholatum was able to establish itself as a skincare brand for men as well as for women (with Hadalabo).

Other Acquired Brands

Phisoderm/Alpha Keri/Selsun

When Phisoderm was acquired, it was being sold in the U.S. and Canada, and efforts were being made to improve their respective sales from different angles. However, consumption did not recover as expected and sales gradually decreased. Gross sales in 2008/09 were \$5.7M but declined to \$1.2M by 2018/19.

Similarly, Alpha Keri, after the acquisition by Mentholatum Australia, changed its packaging and message countless times as a way to increase sales. But sales went up and down, unable to consistently increase, due to issues with distribution. It had \$3M in gross sales in 2008/09, but this gradually decreased to \$2.1M in 2018/19.

Selsun had existed in the market as a highly-effective anti-dandruff shampoo with a unique scent and had been able to continuously secure sales even after its acquisition by Mentholatum. Sales gradually grew in Thailand, Malaysia, South Africa, Vietnam and Indonesia. In Thailand, sales were second only to Acnes, and in Malaysia it was the number one product in the market category. Gross sales by Mentholatum subsidiaries in 2008/09, excluding Indonesia and Vietnam, were \$5.2M and grew little by little each year, reaching \$7.3M by 2018/19. Many new products, including cosmetics under the Selsun brand, were introduced in Vietnam and Indonesia, which increased sales. As of 2019, demand in developing countries was still high allowing for the opportunity to continue its growth in other countries into the future.

Natural Instincts



Natural Instincts

When Mentholatum Australia welcomed Nick Gibson as its new managing director in 2010, it acquired Natural Instincts at his suggestion. It was a line of natural cosmetics products sold in Australia and New Zealand and was Mentholatum's first full-scale totally natural skincare product line, which also included haircare. Prior to this acquisition, like other acquired brands, sales had been in a decline and immediate attention was required. It was a brand that demanded improved formu-

lations, reduced manufacturing costs and better sales efforts for distribution. After the acquisition, sales were one step forward, one step back, as they rose when they were used in store promotions by major distributors, but declined immediately when removed.

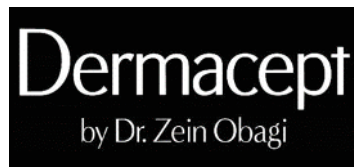
Gross sales in 2018/19 were \$2.4M in Taiwan, and \$3.5M in Australia and New Zealand. Natural cosmetics was a new trend in the market, but product quality, stability and frequency of use were inferior to non-natural cosmetics, because the naturally derived raw materials had limited availability. As of 2019, there was a need to upgrade the quality level of Natural Instincts. The question becomes: how can this brand be improved in the future?

Newly Introduced Brands

Dermacept

With explosive sales of Hadalabo, launched in China in 2008, the continually growing Asian subsidiary was looking for the next new skincare product. Several brands were listed as candidates among Rohto's skincare lines in Japan, but it was difficult to find one that would have a similar impact.

The second most attractive product in Japan following Hadalabo was the Dr. Obagi brand. Dr. Obagi products, developed by the Obagi Medical Products (OMP) Company, had been licensed to Rohto in 2001. Obagi C and Obagi K were launched and sold at high prices in Japan. In the beginning, sales were sluggish due to the prices, but over time, consumer appreciation of the effectiveness of the Obagi C series products grew and sales increased. They were solutions of 5% and 10% stabilized Vitamin C, extremely unique formulations. Both 20% and 25% solutions were added later. Although there was a need to pay a rather expensive licensing fee, the products continued to be sold due to their value.



The products grew to become Rohto's number two facial skincare brand, following Hadalabo.

The Obagi product line was planned to be introduced into Hong Kong, following Hadalabo. However, the OMP Company did not agree to the license for Hong Kong. In 2011, having a good relationship with Dr. Obagi, Rohto was able to help MAP launch a similar product under the new brand, Dermacept, with his support.



The Dermacept series, like the Dr. Obagi skin care brand in Japan, was sold as high-end skincare products with a focus on skin restoration. Due to its characteristics, it would likely be well received as a department store brand, but it had no history or experience doing so. MAP collaborated with Manning, a major drug store chain in Hong Kong. Dermacept C10 was sold at an unprecedented high price of \$100 per unit and targeted affluent, middle aged women. Sales initially

stagnated. Five years after its launch, there was a change in the marketing approach, switching from traditional TV commercials to focus on key opinion leaders and beauty consultants. While sales were initially difficult to grow, with patience and perseverance, the positive effects of the vitamin C formulations were recognized and sales increased. By 2018, Dermacept had amassed a loyal customer base and profits were high, with many users crediting the product with keeping celebrities' skin youthful. Gross sales in 2018/19 were \$5.4M.

50 Megumi

Similar to Dermacept, 50 Megumi a hair care product, was first introduced in Hong Kong in 2013 as a post-Hadalabo candidate. MAP Hong Kong, which had continuously focused on younger generations as its target audience, would need to create new and evolving sales approaches targeted middle and older aged women. It was originally unveiled with the brand message "Age well, live well," with Agnes Chan and Sheren Tang as spokeswomen. 50 Megumi was well received by the market in the beginning and its sales steadily grew becoming number one in Hong Kong's female haircare market. Sales were \$11M in 2018/19.



Immediately after its success in Hong Kong, it was launched with the same products and concepts in Taiwan, Malaysia and Thailand. Cosmopolitan magazine awarded the 50 Megumi line as the "best anti-aging hair-care products." Riding on that success, 50 Megumi Men's was launched in 2018 in Hong Kong.



Others



Mentholatum Botanic Products

Between 2017 and 2019, many new products, including Botanics (developed by Mentholatum), Melano CC, Care Cera and Sugao (developed by Rohto) were introduced in Asia. As of 2019, sales were low, but future trends were being monitored.



Rohto Melano CC

Asian Business

Growth in Asia has accelerated even more in this decade than it did in the last. The sales and profits of Mentholatum's Asian subsidiaries in 2018/19 all recorded growth in sales and profits and delivered sales of \$419M and profits of \$57M overall. The operating profit margin was also as high as 13.6%. In addition to concentrating on individual brands, the company launched popular low-priced Mentholatum skincare products, for face, hands and body. These products were introduced and sold without advertising,



Mentholatum Hands and Body Care

which contributed to the higher profits.

The growth in the Asian region has been significant in part due to the continued growth of lip balms, eye drops, Hadalabo and Mentholatum Men's in China. The contribution of Hadalabo's rapid growth in other countries throughout the region has also had a significant impact. Historically, the launching of products throughout the Asian region was synchronized or aligned in terms of marketing, which brought positive results. In recent years, Mentholatum has been encouraging each country to choose from Rohto's product portfolio, allowing promotion and marketing efforts to be unique for each country. This too is delivering excellent results. In the entire Asian region, the sales contribution in China (MCL) and MAP Hong Kong was huge, together delivering sales of 74% of the total for the region. In addition, other subsidiaries also contributed, with Taiwan at 10%, Malaysia/Singapore at 6%, Thailand at 5% and South Korea at 5.4%.

The MAP group remained united, with a focus on top management, synergistic approaches and increased motivation. These efforts together delivered positive results. The group served the local communities as well through donating to local schools (Mentholatum School), healthcare education, as well as improving the environment through various activities.



Management at MAP Group



Asian Region Managers

Expansion of the MCL factory



No. 1 Building



No. 2 Building



No. 3 Building



No. 4 Building



No. 5 Building

The MCL plant, a production base for subsidiaries in Asia, produced many products for the entire Asian market. In 2009, a third building was added to accommodate the growing number of items being manufactured, primarily for skincare, with new larger-sized containers. To further improve logistics, a fourth building was constructed in 2010 as a modern automated warehouse. The flow of the product supply as a whole was made seamless, rising labor costs were absorbed and production costs were lowered.

In 2012, building 5, a six-story dormitory and food service facility for employees was built. Employees were able to stay longer at the company and motivation was improved through these services. Compared to 1991, when only one building existed, this vast expansion and the addition of four new buildings have made the company proud, and greatly increased development and satisfaction.

In 2018/19, 178 million units (of various products) were manufactured and sent to Metholatum companies in China and other Asian countries. The production lines are as follows:

- Building 1: Lipbalms, ointments, patches, gels, and creams
- Building 2: Eye drops, eye creams, facial masks
- Building 3: Tube and bottle products

Dax Acquisition - Expansion of the Cosmetics Business

The acquisition of Dax in 2014, has given the Rohto/Mentholatum group the opportunity to explore and expand new businesses. It was a slow process and the final decision was made after strategically examining the possibilities of various other companies. The acquisition created new ways of thinking about cosmetics and skincare for Rohto and Mentholatum, both founded as pharmaceutical companies. Dax offers the Rohto/Mentholatum group possibilities to have an impact on the skincare world.

The Mentholatum business in Europe has grown through the expansion of the OTC business centered-around topical analgesics, in part due to the development in the U.K. Consequently, Eastern Europe including the former Soviet Union and Poland, also developed the business using distributors in each country, mainly focusing around topical analgesics, specifically Deep Heat, Deep Relief and Deep Freeze. Development of the markets in this region was initially undertaken by an overseas business manager, Morey Forbes from Mentholatum U.K. Later, Maciej Misztak, who took over the position in 2006, actively focused on and accomplished strengthening the development of business in the region, especially in Russia, Ukraine and Poland.

Just after being hired, Maciej joined three Mentholatum executives, Aki, Bron, and Francis on a trip to visit distributors in Eastern Eu-

rope. The group connected at the Zagreb Airport in Croatia. While Maciej had already met Bron and Francis, this was his first time meeting Aki. He had flown in from Poland for this business trip, incredibly, just after back surgery. Knowing this, the three offered to carry his luggage for him, which Maciej replied without flinching, “Nonsense. I’ll take care of everyone’s luggage.” With his insistence, they hesitantly agreed and he actively carried out the job without complaint. This event would later become the stuff of legends, and these things...the sincerity, strong spirit and resolute insistence of his efforts toward his work...are believed to be factors that contributed to the outcomes for the expansion of the business.

The group traveled to the region observing the current business situation and discussed its future direction. At the time, this region was almost entirely limited to OTC topical analgesics, but sales were gradually growing year after year. There were limits to that growth, due to the difficulty in obtaining new product permits and the lack of advertising and promotional spending. Some sort of action would be needed.

In order to grow sales, Mentholatum decided to expand into new categories and it was believed that growing the business, particularly in Russia, offered the best opportunities. In 2012, Mentholatum U.K. planned to acquire a brand or company or create a joint venture in Russia.

Maciej, Bron and Francis believed that it would be advantageous to have a cosmetics-related business, which would be subject to less regulation than an OTC business. They looked for a partner to establish a joint venture company that could conduct activities in both Russian and Polish markets. They contacted Belweder, a company that for several decades had been doing well in selling lip balms inside containers whose lids could be opened with one hand, which was helpful in Russia where it could get extremely cold. Negotiations were conducted from different angles including acquiring Belweder products, acquiring the company itself



Belweder Lipbalm

or establishing a joint venture company. Meetings were held with Symon Kim, the owner of Belweder, several times during visits to Russia and Poland. Various joint venture options were discussed while considering the expansion of this business. At the end of the talks more than a year later, Belweder pulled out and the talks ended.

Around the same time, there were ideas about Oceanic, a local cosmetics manufacturer in Poland, looking to sell its business. So, Oceanic became the new target. The plan shifted to the direction of launching a cosmetics business in Poland and cultivating the Russian market from there.

In Poland, there were few overseas global brand cosmetics manufacturers. Rather than the market shares being monopolized by famous brands as in most other countries, the market was flooded with local cosmetics manufacturers. Interestingly, because several of the local cosmetics companies in Poland were actively exporting products to Russia, Polish cosmetics were highly rated in the Russian market and their positions were well established.

Looking at the realities of this cosmetics business, the acquisition of Oceanic looked very attractive. Both its sales and the scale of its business were large and its products were attractive. A significant increase in sales was expected if it was acquired. The acquisition price demanded was much higher than expected, based on what was discussed during the initial negotiations. Oceanic was looking for 2–3 times its then current yearly sales. With difficult negotiations and the high price, Mentholatum was regrettably forced to decline. While the acquisition of Oceanic did not proceed, through the process, Mentholatum was able to better understand the Polish cosmetics industry.

Dax, another local cosmetics manufacturer heard about a Japanese company looking for acquisition candidates. Founded by Jacek Madax and Wojciech Szulc, who were engineers from the Faculty of Pharmacy at the Medical Academy in Warsaw, it was a company born out of technology-based product development and it sold original and unique cosmetics.



Dax Cosmetic Company

However, Dax had a lot of products that had gradually shifted to a low-price category due to competition with other companies. There was a constant need to introduce new products to the market each year and to unceasingly continue garnering the attention of consumers. Due to these circumstances, it would anticipate trends in the cosmetics industry and took the strategy of developing proprietary products that were unique to the market.

However, even though they went through all the effort of developing and introducing products to the market through new ideas, product concepts and technologies, imitation or similar products would immediately be launched by other local cosmetics companies. They were unable to maintain sales using their proprietary and groundbreaking new products. The business environment was also experiencing large changes and the bulk of the distribution had turned into sales through major, modern mass retailers. The problem of being left behind during this change also remained.

Other factors included, the structure of Dax itself. The company was family owned and the management style reflected it. While this approach had many positives, it also presented some problems. At the same time, there were questions

about MUK’s ability to skillfully manage advertising, sales promotion and new product cultivation, as this would be new to the entirely OTC business. Dax’s market share, as well as its capabilities with development, production, sales and marketing were studied in order to evaluate the company.

The company size was not too large for Mentholatum and it was a good opportunity to expand the skincare side of the business. In addition, the acquisition price that had been negotiated was less expensive compared to prices in Western Europe or the U.S. Despite various uncertainties, Mentholatum decided, with Kunio’s consent, to acquire Dax in 2014. The price was \$36M.



Dax Acquisition Ceremony

With the acquisition, Mentholatum decided to delineate between Mentholatum U.K. regions and continental European regions. Dax would become a part of the new Mentholatum Continental Europe, of which Maciej became the Managing Director. Mentholatum was also looking for a new, capable leader to improve the management system of the companies that they had acquired. As a result of on-site recruitment, the company was able to secure highly motivated human resources personnel. Ewa Blocher, who became President of Dax Cosmetics, was an excellent asset who had worked for another local cosmetics company. She had a very strong will to grow and expand the Dax Company.

A couple of years after the acquisition, the Dax team reviewed the company’s structure, sales chan-

nels, product development and marketing personnel. Financially, there was also the burden of amortizing the acquisition price. Along with strengthening the main brands, there was a need to introduce and develop new products that other local companies could not imitate. What made this objective possible was the introduction of Hadalabo Tokyo to the market. It was the first product originating from Japan for Dax. It was the most suitable product to choose from the Rohto Mentholatum portfolio due to several factors. First, the product concept, packaging, and formulation were already created. Also, it had been popularized and had a following in many other countries. Additionally, the Japanese quality and image helped to differentiate it in the market.

After consulting with Rossmann, a major drug-store chain in Poland, 13 items were released under the Hadalabo Tokyo brand in April 2017. At the time, Hadalabo Tokyo had only six items in the U.S. Dax decided to add a line of Hadalabo’s anti-aging products from Rohto. In addition, the formulation was imported in bulk from the U.S. and Japan and then filled, packaged and introduced to the market by Dax. This helped to mitigate the cost of the products.

Japan had a very high image in Poland and the “Made in Japan” label created a positive impression to consumers. Dax incorporated the Japanese image as much as possible, labeling products with “Hadalabo Tokyo from Dax” with the subtitle, “New York, Tokyo, Warsaw” adding “from Dax Cosmetic Compa-



Hadalabo Toyko Launching

ny and Rohto Pharmaceutical Japan Group.” When it was time to launch new Hadalabo Tokyo products, magazine editors, bloggers and others in the press in the cosmetics industry, and representatives from Rossmann were invited. This campaign introduced Hadalabo Tokyo to Warsaw on a grand scale.

Besides Aki, Kayoko Tsuji and Kyoko Kino from Rohto, joined this unveiling and spoke to the audience about the great quality and effectiveness of Hadalabo Tokyo.

Hadalabo Tokyo showed great sales from the start and was able to achieve \$2.5M between April (when it was introduced) and December of 2017. This was groundbreaking for Dax. In the second year, sales exceeded \$3M. No imitation products by local competing cosmetics manufacturers followed and sales grew steadily for these unique, differentiated Japanese products. To answer a request from Rossmann, a new product line using the Hadalabo Tokyo brand was developed. Hadalabo Tokyo Men was launched in 2018/19 and Hadalabo Tokyo Body and Hadalabo Tokyo Sun in 2019/20.



HLT Mens



HLT Body

Besides Hadalabo Tokyo, existing Dax brands, such as their flagship Perfecta, successively released topical products that used the latest concepts and raw materials. These included Phenomen C, Magnetic Water, Time is Green, Bird's nest, and Botulux. Others under the Yoskine brand included Imperial, Hokaido, and Okinawa. These were popular and trendy products introduced to attract more consumers. Although imita-

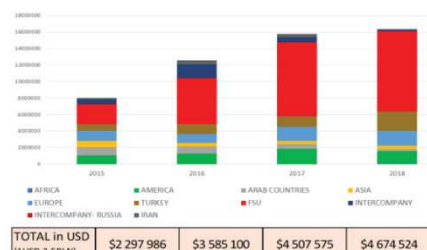


tion products were immediately released by other companies, the sales of new products were steady during one or two years after launching. The products developed by Dax have had a high degree of perfection and appeal in terms of concept, formulation, and package design. These products have potential to expand into Mentholatum's global market.



The sales of Dax showed growth at 15%–18% nearly every year through 2018. Gross sales expanded from \$21M in 2014/15 to \$36M in 2018/19, and net sales steadily increased from \$18M in 2014/15 to \$27M in 2018/19. Sales through traditional channels fell among distributors between 2017 and 2018, causing sales to increase by only 4% in 2018/19. Operating income steadily improved from the low profit margins immediately after the acquisition and the sales ratio of the operating profit in 2018/19 was 5.5%.

SUMMARY OF 2018 IN PLN BY REGIONS



Dax Export Trend

The export destinations of Dax cosmetics expanded and as of 2018/19 they included the U.S., Mexico, Australia, Russia, Turkey, Iran, and Vietnam. Export sales increased from \$2.3M in 2015/16 to \$4.7M in 2018/19.

In developing new market opportunities, Mentholatum Continental Europe utilized not only cosmetics by Dax and the Hadalabo Tokyo line, but also introduced existing Mentholatum U.K. brands, Deep Heat and Deep Relief. This approach helped cultivate not only the market in Poland but the larger continental European market as well. The development was accelerated by using old and new distributors, increasing the number of countries where products were sold.

Development of the Russian market

Prior to the acquisition, operations in continental Europe had been done using distributors. After the acquisition of Dax, business was divided into OTC and skin-



With Podzruzhka Buyers

care, and the markets for both were developed under the leadership of Maciej, Pavel Karpus and Tomasz Giembicki. OTC sales in this region in 2018/19 totaled \$9M, with \$4.8M in central Europe, \$3.5 in the former Soviet Union, and \$0.6M for western and southern Europe.

The introduction of Deep Relief in Russia started in 2004, through Delta Medical Russia, and sales increased to \$2.2M by 2013/14. However, due to the effects of the Ukrainian conflict in 2013, sales in Ukraine and Russia rapidly declined and by 2015/16 decreased to \$1.2M. There have been some signs of recovery since, but the local currency experienced a significant fall. A full-scale recovery will likely take time.

Since the acquisition of Dax, Mentholatum Continental Europe had started to expand its skincare business toward the Russian market, which was the original goal of the acquisition. Skincare products, such as Hadalabo Tokyo served a huge role in this export. At the center of this market development were Pavel and Maciej. Before he joined Dax in 2014, Pavel had experience skillfully developing the Russian market in his work for the Eveline Cosmetics Company, a business in Poland. Using that knowhow, he developed channels in the market for products from Dax, Mentholatum and Rohto. Mentholatum Continental Europe was able to introduce these products to the Russian market for the first time in 2015, through Pavel's great efforts and the cooperation of a specialty cosmetics chain, Podzruzhka.



Podzruzhka Store

The sales of Rohto, Mentholatum and Dax products through the store chain rapidly grew to \$2.6M in 2017/18 and \$2.9M by 2018/19. Podzruzhka operates largely in Moscow, so as a single channel it was both efficient and effective. However, in order to grow sales outside of Moscow, there is a need to expand to other cosmetics channels.

To ease the process of importing products from Dax to Russia and develop the Russian market more intensely, Rohto Metholatum Russia was created in 2019. Up to this point, OTC and skincare businesses used separate distribution. Rohto Metholatum Russia allowed for the integration of these businesses, making the development of the market in Russia more efficient.



Rohto Mentholatum Russia

Hadalabo and other skincare products from Rohto, Mentholatum's lip balm products and Dax's Perfecta products, among others, started getting exported and sold in Russia. These exports from Dax met success in Russia and expanded to Ukraine, Bosnia, Serbia, Romania, Croatia, Macedonia, Lithuania, as well as Saudi Arabia.

Japanese products have a positive reputation

in Russia, and it is possible to effectively market using just the Japanese image. It is expected that sales activities of OTC and skincare products will boost business and grow tremendously through Rohto Metholatum Russia.

Summary

The third decade after the acquisition, was a time for new brands and products to take root and grow on a global scale. In addition to Sunplay, Acnes, Hadalabo and Rohto Eye Drops (U.S.), which had been introduced by Rohto in the second decade, Mentholatum acquired new brands Oxy, Phisoderm, Selsun and Alpha-Keri. The company also developed new products including Mentholatum Men's, new versions of Softlips and Lip Ice lip balms, Regenovex, and Botanics. These new products were introduced using marketing, advertising and promotional strategies to fit the circumstances of each country, to take root locally. Many brands were able to become well established. On the other hand, brands that had been acquired, struggled to increase sales and reverse their decline.

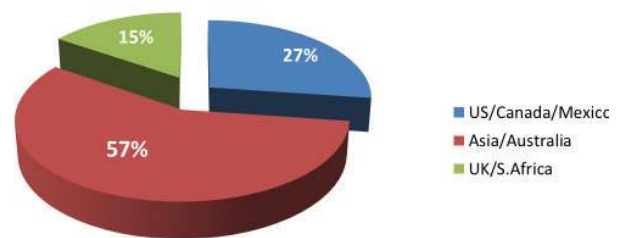
The dramatic and monumental business growth in China, enabled and shaped the subsequent growth in the entire Asian region. Mentholatum's business continued to shift from OTC to skincare, including cosmetics. This trend, in particular, was evident in the Asian subsidiaries close to Japan.

Mentholatum in Europe and the U.S. continued to take on new challenges. The company decided not to introduce Sunplay, Mentholatum Men's and Acnes, but instead introduced Rohto Eye Drops and Hadalabo Tokyo, which had limited growth. In addition, during this time Mentholatum acquired Dax, expanding and strengthening the cosmetics side of the business. This acquisition created the delineation between Mentholatum U.K. and a new Mentholatum Continental Europe, further developing new markets. Also, Rohto Mentholatum Russia was established in Moscow to fur-

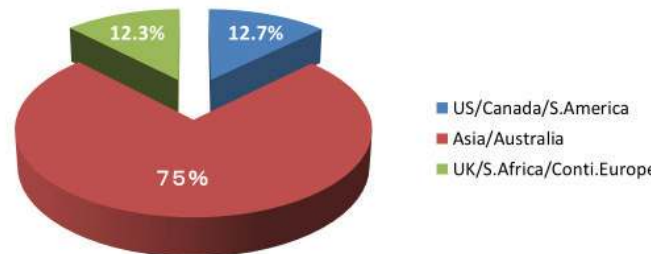
ther expand the Russian market.

Due to the rapid growth in the Asian region, the dynamics of regional sales evolved. Sales in the Asian region, including Australia, were \$420M in 2018/19. This was an increase to 75% in total sales from 57% in 2008/09. In contrast, the sales ratio in the North American region decreased by half, from 27% in 2008/09 to 12.7% in 2018/19, and the sales ratio in the European region also decreased to 12.3% by 2018/19.

Sales by Region 2008/09 (\$292M)



Sales by Region 2018/19 (\$560M)



According to the financial report for 2018/19, the net sales and operating income of each country/region was as follows:

- U.S.: \$68M (sales) and \$4.8M (O.I.)
- Canada: \$5.2M and -\$7K
- Mexico: \$1.6M and -\$0.12M
- Brazil: \$0.9M and -\$0.7M
- U.K.: \$42M and \$3.1M
- South Africa: \$9.4M and \$0.7M
- Continental Europe: \$8.7 and \$0.8M
- Dax: \$27M and \$0.5M
- Malaysia: \$24.7M and \$2.1M
- Thailand: \$19.5M and \$1.5M
- Taiwan: \$43M and \$7.8M
- Hong Kong (domestic): \$59.2M and \$14.8M

- China (domestic): \$216M and \$21.3M
- South Korea: \$22.5M and \$2.9M

Sales rose significantly in all regions and countries, and operating income also increased in Asia. The regions that had been in the red had become profitable. On the other hand, U.S., Canada and Mexico experienced stagnant sales and profits due to the intense competition in the market, under-performance of challenging products, changes in accounting calculation methods and fluctuation in currency exchange rates.

The largest increase in sales over the third decade since the acquisition was in Thailand. By 2018/19, the growth rate was the highest among all Mentholatum subsidiaries reaching 5.4 times the sales 2008/09. Other Asian countries recorded increases of between two and four times. As for profits, compared to 2008/09, Hong Kong increased by 4.6 times, Malaysia by 4.2 times, MCL by 3.2 times, and Taiwan by 2.2 times, contributing to overall profit growth.

Total Mentholatum net sales in 2018/19 were \$560M, a significant increase compared to 10 years prior, at \$292M. While taking into account royalties from Rohto (\$5.5M) and the appraisal loss of Dax, operating income grew to \$66.3M in 2018/19, up 345% from 2008/09. Operating income to sales ratio in 2018/19 boasted the highest profit ratio in the history of Mentholatum, at 12%.

The business growth in the 30 years since the acquisition of Mentholatum, especially the rapid growth in the last 15 years, was achieved through the expansion of the business in the Asian market, particularly in China. How was Mentholatum able to achieve such rapid growth in Asia?

- During this time, countries in East Asia, including China, were growing at higher GDP ratios than the economies of developing countries.
- Entering the Chinese market before it was fully developed and skillfully introducing eye drops and skincare products to meet with the economic growth.
- Developing the market by utilizing the

strong leadership and marketing skills of top management.

- In China, reinvesting the profits from the successful lip care business to develop products for new and existing brands.
- Building a factory in China to lower production costs and setting prices high, positioning the products as premium, elevating the corporate and product images.
- Advertising and promoting in a comprehensive manner to increase return on investment, approaching China, Hong Kong and other Asian countries, as a single region.
- Effectively focusing investment on distribution. This can be seen in the ratio of the difference between net invoice sales and net sales (mainly, discounts for distributors, promotions and shelving fees).

Fifty percent of gross sales in the Asian region was used for discounts for distributors, distribution allowances, shelving fees, and in-store promotions for consumers in 2018/19. This was in sharp contrast to 11% in North America and 15% in U.K./Europe/Australia. Generally, the skincare business requires much more shelf visibility than other OTC products. The Asia region's heavy investment in the trade resulted in significant sales. Conversely, in the U.S. and Europe, the lack of investment in advertising, sales promotion and distribution directly affected outcomes. This was amid intense competition with major manufacturers and high labor expenses, directly increasing manufacturing costs.

The growth of the OTC business was limited globally and became more difficult to increase sales, except with Rx to OTC switched products. The appearance of new, innovative products also continued to be a rare sight. In addition, the way people thought about health gradually changed from treatment to a preventive approach. This trend gave huge opportunities for success in the areas of skincare and supplements, over OTC products. This change resulted in the transformation of Mentholatum from an OTC focused to skin care focused business.

Chapter 5: Impact of Acquisition

In 2019, the Mentholatum Company and Rohto Pharmaceutical Company celebrated their 130-year and 120-year anniversaries, respectively, which means that both companies become old enough for retirement. However, the businesses have continued to grow as if they are in the prime of their lives. They have robust driving forces that have allowed them to transform their business models in response to changes in the market. The development and growth which took place over the last 30 years was accomplished by their competent top management, especially owing to the leadership and management instinct of Kunio Yamada, president of the Rohto Pharmaceutical Company since 1999.

It is safe to say that the most important factor for Rohto's 30-year growth was the acquisition of the Mentholatum Company in 1988, which was thanks to the forward thinking of Yasukuni Yamada, president of Rohto at the time. Perhaps it was not coincidental then that under Kunio Yamada, (son and successor to Yasukuni Yamada) Mentholatum and Rohto saw such extraordinary growth. There seems to be something destined.

The relationship between the two companies dates back to the time when Rohto became a licensee of the Mentholatum Company in 1975. Rohto made great efforts to nurture Mentholatum's brands and work to establish them as the third pillar of its business, next to eye drops and digestive medicines. In 1984, Rohto created the Number 3 Product Division

to focus on the Mentholatum business and utilize the opportunity to critically restructure itself into divisions, based on brands. It expanded Mentholatum's business in Japan by developing and releasing new product lines to the market. The division became an indispensable part of the Rohto organization.

When the owners of Mentholatum decided to sell the company, it was understandable that their first choice was Rohto because of its remarkable growth in Japan. Rohto paid a premium price to acquire Mentholatum, and it had a significant impact on Rohto's future. In essence, this decision became a driving force for Rohto's future business expansion. Likewise, being acquired by Rohto was

a major factor for the growth of the Mentholatum Company.

The transformation from licensee status to owner of Mentholatum influenced Rohto's product line strategy.

It resulted in the development of various kinds of topical OTC and skincare products. Furthermore, some of these products evolved specifically into the facial skincare field, which led to the creation of even more new product lines such as Obagi and Hadalabo. Rohto established itself as a significant player in the skincare market.

In addition, Mentholatum entered into new markets early to expand and strengthen its global business. This was especially true when they created subsidiaries in China and other Asian regions, effectively establishing a presence in the corresponding markets. Furthermore, the company in-



Yasukuni Yamada



Kunio Yamada

roduced promising products chosen among a pool of the product lines, which Rohto newly developed under the Mentholatum brand. This overseas business expansion of the Mentholatum Company increased the presence of the Rohto Group globally, which created new business opportunities. The impact from the acquisition to both companies' growth was immeasurable.

In terms of return on investment, the acquisition was clearly successful from Rohto's standpoint. Although there was no notable development during the first decade after the acquisition, its business infrastructure was strengthened. It could be safely said, that the investment was more than justified when considering the following decades in which both companies together experienced rapid growth.

One of the outcomes from the acquisition was an accelerated expansion in Mentholatum's topical product lines. The OTC topical and skincare products developed in Japan grew into categories such as lip care, hand and body care, acne care, topical analgesics, and other OTC products.

During that time, the Number 3 Product Division worked to further expand and strengthen Rohto's skincare business. One direction was to try to become Neutrogena's sales agency for the Japanese market. Rohto obtained information that Neutrogena was looking for a new agency for Japan, and this was deemed a great opportunity. Mr. Lloyd E. Cotsen, then CEO and President of Neutrogena, was contacted through a person associated with their Japanese agency. President Cotsen was invited to Japan for a tour and meeting at Rohto, and President Yamada and Aki visited Neutrogena's headquarters in Los Angeles, as well. Negotiations and meetings were repeatedly held, to convey Rohto's enthusiasm, convincing Mr. Cotsen that Rohto wanted to establish business with the famous brand. While Cotsen gave a positive response initially, creating confidence that Rohto would reach an authorized agency agreement, ultimately attitudes changed and negotiations broke off. President Cotsen personally recognized the significance of Rohto's presence in Japan, seemingly endorsing the agreement. However, an acquisition discus-

sion by Johnson & Johnson Corporation, going on simultaneously, was being finalized, thwarting this opportunity.

Rohto became acquainted with Ms. Yoshimi Minakami, one of the executives in Neutrogena's Japanese agency, during the time of the negotiations. She was actively involved with Neutrogena's sites, in both Japan and the U.S. She was knowledgeable about the skincare market and well connected to practitioners in the dermatology field. Through the relationship with her, various products and business proposals related to skincare and medical facial care were brought to Rohto. One of the business proposals was to become a licensee of the Obagi brand in Japan, which related to facial skincare products created by Dr. Obagi. After conducting various tests, President Kunio Yamada immediately recognized the promising potential of this product line and Rohto became the sole licensee in Japan despite a high royalty cost. By 2002, the Obagi C products were launched into the Japanese market by Rohto. This was a tipping point for Rohto to start shifting its focus to the facial skincare field. In 2005, the Hadalabo product line was developed by Rohto in Japan and became the largest contributor to Rohto Group's phenomenal growth. Rohto experienced remarkable success with the Hadalabo product line and a subsequent extraordinary expansion of skincare products.

The topical business introduced by Mentholatum not only grew but was extended to the facial skincare market. Various product lines were developed and blossomed. New products from Rohto were fed back to Mentholatum like a boomerang. Mentholatum effectively introduced those new products to Asian markets which expanded dramatically.

If Rohto had not acquired the Mentholatum Company, would Rohto have developed the skincare business by itself? When this question was recently posed to Chairman, Kunio Yamada, his response was a definite "no".

Rohto rapidly acquired an international presence through the Mentholatum Company. Initially at meetings of the Mentholatum board or foreign

companies, simultaneous interpreters were always needed. Interestingly, within a few years, all Mentholatum Board and international meetings were conducted in English, without interpreters. All kinds of problems on development and production of new products were shared and discussed between Rohto and Mentholatum, along with marketing and new product ideas. Rohto transformed itself from a local Japanese OTC company to a global company through nurturing and cultivating its skincare business.

The Mentholatum Company lacked driving forces for developing and marketing new products, and suffered from production management problems. The interaction with Rohto improved their weaknesses and enhanced the Company's framework for its further growth. Synergistic opportunities were effectively promoted by managing and utilizing the strengths and uniqueness of both companies.

Furthermore, those effects continued with the acquisition of Dax, in 2014. This purchase brought the Mentholatum's skincare business into the cosmetic business field.

Dax created 13 Hadalabo Tokyo products with great success, by combining product lines from both Japan and the U.S. If these products are successfully incorporated into Mentholatum and Rohto, it will be another example of the synergetic or boomerang effect.

The product lines which were developed and introduced by Rohto to Mentholatum were Sunplay, Skin Aqua, Acnes, Rohto Eye Drops, Hadalabo/HLT, AD cream, a variety of lip balms, Dermacept, 50 Megumi, Melano CC, Mentholatum hand cream, Deoball and others. Most of them had great success.

The global market for Rohto Eye Drops has been developed by utilizing the distribution network of the Mentholatum Company. They continue to have great potential with a

Brand	Actual	vs LY (%)
1. Lip/Schlige	222.8	101.8
2. Hada Labo	142.7	113.0
3. Men's	114.4	93.8
4. Sun Care (Sunplay/Deo Sun)	106.1	125.5
5. ROHTO Eye Drops	83.4	117.4
6. Deep Series (SH/DF/SR)	57.3	101.2
7. Acnes	34.8	118.8
8. OXY	25.3	95.9
9. H Ointment	23.8	93.6
10. Contract Manufacturing	22.4	120.6

high profit margin and further market development is expected.

The largest sales volume for the Mentholatum Company in 2018/19 was its lip care business. Second was Hadalabo (including Hadalabo Tokyo), followed by Mentholatum Men's, then the sun care category (Sunplay, Skin Aqua, and Dax Sun). Next was Rohto Eye Drops, Deep Heat Rub, Acnes and Oxy.

To summarize the flow of business between Rohto and Mentholatum:

Licensee of Mentholatum → Acquisition of Mentholatum → New skincare product development at Rohto → Introduction of products to Mentholatum overseas → Obaji business in Japan → Hadalabo and other new facial skincare products by Rohto → Introduction to Mentholatum overseas.

To summarize the impact over 30 years:

- Sales of Mentholatum: from \$41M to \$560M (14 times)
- Sales of Rohto: from \$150M to \$946M (6.3 times)
- Sales of Rohto Group: from \$191M to \$1.835 Billion (9.6 times)

With the acquisition, Rohto's Japanese skincare business continued to grow. By fiscal 2018/19 the sales volume of the Mentholatum's brands reached more than \$170M (USD) in Japan. The sales volume of skincare products amounted to 65% of Rohto/Mentholatum Group's sales.

Failures with acquired companies often happen due to issues with transitioning management, keeping up with acquiring company's growth, or losing their identity and market presence. However, because of similarity in the cultural characteristics between Rohto and Mentholatum, their strengths and weaknesses complemented each other. Mentholatum incorporated new products developed by Rohto to expand product lines, leading to an increase in sales. Rohto overcame weaknesses in its overseas business and expanded its global presence through Mentholatum. It was the most ideal acquisition, providing opportunity and growth through great efforts by both Rohto and Mentholatum.

Chapter 6: From the Past Toward the Future

Celebrations

The longevity of the Mentholatum Company has been celebrated many times, through wonderful events and ceremonies. After celebrating its 110th anniversary in 1999, it went on to celebrate its 115th, 120th, 125th and even 130th anniversary in 2019. To commemorate the 120th anniversary of the company, 120 cherry trees were planted around the headquarters in Orchard Park, New York in the United States. By 2019, most of them bloomed in May, with white and pink cherry blossoms, adding color to the office and factory.



120th Anniversary Celebration Activity

For the 125th anniversary, another 125 trees were planted around a park in Buffalo, New York, investing in the local community. In 2019, yet more cherry trees were planted to celebrate the company's 130th anniversary. In these commemorative years, each subsidiary also held an event to express gratitude to employees and their

families as well as their communities, and to celebrate the good fortune of their longevity. The anniversary years were used as opportunities for advertising and sales promotions as well (e.g. 120th anniversary Mentholatum Ointment).



125th Anniversary Event

Unlike many other companies that settle for “good enough,” in 2019, Rohto celebrated its 120th anniversary with the spirit of “Never say Never.” Moving into the future with this approach of “Try anything! Never be afraid of failure,” the Rohto Mentholatum Group will continue to shine.



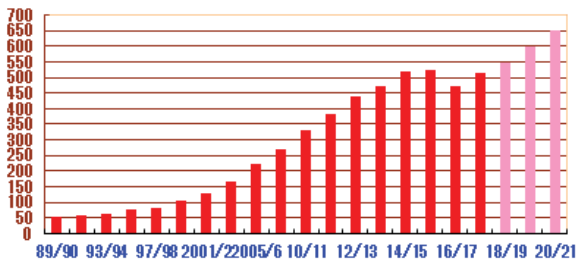
Sales Promotion in the 120th Anniversary

Business Targets

In its Vision 2020 plan announced by Aki in 2016, Mentholatum set a target of \$800M in sales for fiscal year 2020. However, sales were stagnant in the years that followed due to subsequent global economic stagnation, political instability, and slower growth in China. This initiated a revision of the target to \$650M.

sales could shoot up like an injection rocket, growing with more energy and power.

Revised Mentholatum 2020 Vision



The Rohto Mentholatum Group continues to make leaps and bounds through the development of innovative technologies and their practical application in products, including genetic manipulation. The three decades since the acquisition provided the foundation and springboard for this development to occur.

With new President and CEO, Masaya Saito and head of MAP group, Michael Sin, Mentholatum has the power to continue its growth trajec-



tory and meet the challenges of finding new business territory for the company.

Mentholatum has demonstrated the strength of self-driving management, while respecting the motivation and efforts of regional subsidiaries. Moving to the next level, by creating an integrated global management system within the Group and enhancing productivity,

Afterword

Commemorating the 130-year anniversary of the Mentholatum Company, this book chronicles year-by-year the 30-year history of its business growth and expansion that Mentholatum experienced after being acquired by the Rohto Pharmaceutical Company. It narrates a story of events and episodes which Dr. Akiyoshi Yoshida, President of the Mentholatum Company (1999 – 2018), witnessed and experienced. It includes his efforts and endeavors, his assessments and decisions, and his quest to find the driving forces and sources of successful growth.

Before the acquisition of Mentholatum, from 1984, Aki worked as the director of the Number 2 and Number 3 Product Divisions at Rohto, in charge of all Mentholatum related business ranging from product development, to marketing and sales, to ensuring the company's profitability. In 1992, he was appointed as the first managing director for the International Division for Rohto, responsible for all overseas business development for Rohto and Mentholatum. He focused on expanding Asian markets. He introduced Rohto's products (specifically eye drops) to Mentholatum, setting-up production lines and marketing for eye drops in China, and creating various subsidiaries. He initiated and supported the diverse activities which generated Rohto's and Mentholatum's growth.

Furthermore, he had been deeply engaged in the business of Rohto Pharmaceutical Compa-

ny for 30 years. President and CEO in charge of overseeing the entire Mentholatum Company from December 1999, he was simultaneously President of Mentholatum U.S., President of Rohto Mentholatum Research Laboratories (RMRL), and Managing Director and Executive Vice President of the Rohto Pharmaceutical Company. Various events and activities, which were experienced, discussed and decided, are recounted here, based on actual facts and his personal perspective.

This book expressed many of his thoughts about the following questions: Why have both the Mentholatum and Rohto been able to prosper together? What factors have made that growth possible? Why did failures occur? What futures await both companies?

Behind the numerical figures, there are many hidden stories about problem-solving methods, daring decisions, effective business strategies, and personnel management challenges. It narrates the rewarding consequences of immeasurable efforts, while capturing (perhaps predestined) connections, as well as pure luck, as remarkable growth was achieved. There have been numerous company acquisitions. Among them there are not many cases where both acquiring and acquired companies flourished and prospered. This is an interesting and exciting example from a corporation-acquisition vantage point.

Acknowledgements

This book was mostly written in Japanese first. Two methods were used to successively translate it. Another version was written in English in parallel, and other parts were written in English first then translated to Japanese. Great effort was made to fully express the feelings and experiences of the book for both English and Japanese readers.

For English translation Ms. Catherine Southwick provided tremendous assistance. She has been engaged in English education for many years in Buffalo, teaching international students and immigrants. She assisted me for many years to transform my English to a high level of fluency in both speaking and writing. As she was aware of the business of Mentholatum, it is safe to say that she was the most suitable person to help translate the book. I am very much obliged to her for her undivided attention and contribution.

When writing the book, I was able to obtain help from many people in order to ensure the accuracy of various past records. I really appreciate everyone cooperating in collecting historical information and documents from all subsidiaries, especially responses from retired executives.

Due to possible minor discrepancies in its contents, descriptions slightly deviated from actual facts, and my own interpretation or understanding, this book may not be a perfectly accurate account to every circumstance or event in Mentholatum's history. However, if this book could make the slightest contribution to future prosperity of both the Mentholatum Company and Rohto, I would be happier than ever.

Akiyoshi Yoshida

References

Executives



Yasukuni Yamada



Kunio Yamada



George H Hyde



Robert Crandall



Yasuhiro Yamada



Masashi Yoshida



Akiyoshi Yoshida



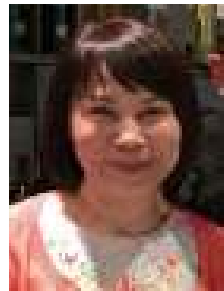
Masaya Saito



Francis Chan



James Ingham



Anita Ng



Hay Lee



Michael Sin



Bron Gorny



Rob Yateman



Uys Pretorius



Maciej Misztak



Ewa Blocher



John Gurney



Jayne Senior



Nick Gibson



Len Dowsett



Marko Bukovec



Mark Ceslinski



John Ende



Steve Hossenlopp



Meryl Reis



Shinjan Xie



Shu Wong



Alfred Chen



Jonathan Chan

Mentholatum's Offices and Factories

Mentholatum (Asia-Pacific) Ltd.

2111-21, Tower 2
Grand Central Plaza
Satin Rural Committee Road
Shatin, N.T. Hong Kong
<http://www.mentholatum.com.hk>

- Management (former and current): Anita Ng, Hay Lee, and Michael Sin
- Major Brands/Products: Rohto Eye Drops, Hadalabo, 50 Megumi, LipIce, Dermacept, Sunplay, Acnes, Mentholatum Men's, AD Cream, and Botanics

Mentholatum (China) Pharmaceutical Co., Ltd

The Second Industrial Estates,
San Xiang, Zhongshan, Guangdong
People's Republic of China

- Management (former and current): Anita Ng, Hay Lee, Shu Wong, Naelong Wang, Patrick Mok, Wesley Chan, and Michael Sin
- Major Brands/Products: LipIce, Mentholatum Men's, Sunplay, Oxy, Hadalabo, Rohto Eye Drops, Mentholatum Ointment, Fever Patch, Body Ice, and Sarafit
- Factory/R&D

Mentholatum Korea

7F Dongyoung Munwha Center Bldg.
772 Yeoksam-dong, Gangnam-gu
Seoul 135-082, South Korea
www.mentholatum.co.kr

- Management (former and current): Yong-gu Seo, Kim Eric Eun, Kyung Ho, and Helen Lim
- Major Brands/Products: Hadalabo, Deep Heat Lotion, Acnes, LipIce, Deep Relief, and Clear Patch

Rohto-Mentholatum (Malaysia) Sdn. Bhd.

Unit 9-1, Level 9, Wisma Averis, Tower 2
Avenue 5, Bangsar South City
No. 8 Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

- Management (former and current): Mah Siew Kwan, and Lim Mei Yuen
- Major Brands/Products: Hadalabo, Oxy, Sunplay, LipIce, Selsun, Rohto Eye drops, Skin Aqua, Deep Heat, and Botanics

Mentholatum Singapore

456 Alexandra Road
#04-09 Fragrance Empire Building
Singapore 119962

- Management (former and current): KongChai Raing, Katherine Liew-Tan, and Lynn Yeo
- Major Brands/Products: Mentholatum Ointment, Hadalabo, Oxy, Acnes, Sunplay, Selsun, Skin Aqua, 50 Megumi, Melano CC, Sugao, and Botanics

Mentholatum Taiwan Ltd.

6F, No. 57, Lane 10, Jihu Rd.,
Neihu Dist., Taipei 114
Taiwan, R.O.C.

- Management (former and current): Alfred Chen, Jonathan Chan, Eddy Liem, and David Lin
- Major Brands/Products: Hadalabo, Acnes, Rohto Eye Drops, Mentholatum Ointment, Mentholatum Men's, Lipcare, AD Cream, Sunplay, and Deep Heat Rub

Rohto-Mentholatum (Thailand) Ltd.

317 Kamolsukosol Bldg., 9th Floor, Unit D-E
Silom Road., Silom, Bangrak
Bangkok 10500, Thailand

- Management (former and current): Som-

chai (Jim) Janesutrakwong, Chakrit (Tom) Assawaawasin, Nawaporn(Moo)Pinalsap, and Worayuth (Jack) Watcharotayangkoon

- Major Brands/Products: Hadalabo, Acnes, Selsun, Lip Ice, Sunplay, and Mentholatum Ointment

Mentholatum Australasia Pty. Ltd.

12 16 Janine Street,
Scoresby, Victoria 3179
Australia

- Management (former and current): John Gurney, Jayne Senior, Nick Gibson, and Simon Tregeagle
- Major Brands/Products: Deep Heat, Ice, Natural Instincts, Laxettes, Alpha Keri, Confirm, and Propovir
- Factory/R&D

The Mentholatum Company

707 Sterling Drive,
Orchard Park, NY 14127
U.S.A.

- Management (former and current): Robert Crandall, Yasuhiro Yamada, Masashi Yoshida, Jim Ingham, Francis Chan, Kunio Yamada, Akiyoshi Yoshida, Mark Cieslinski, John Ende, Jean Regraw, Hiroshi Mori, and Masaya Maito
- Major Brands/Products: Mentholatum Ointment, Deep Heating Rub, Rohto Eye Drops, Softlips, Oxy, Red Cross, Flethers, Hadalabo Tokyo, Phisoderm, and Well-Patch
- Factory/R&D

Mentholatum L.A. Office

3625 Del Amo Boulevard, Suite 210
Torrance, CA 90503
U.S.A.

- Management (former and current): Shinjan Xie

Mentholatum Pennsylvania Office

111 Rock Road
Horsham, Pennsylvania 19044
U.S.A.

- Management (former and current): Akiyoshi Yoshida, Meryl Reis, and Hiroshi Mori

- Major Brands/Products: Oxy, Phisoderm, HL Tokyo, Rohto Eye Drops, and Wellpatch
- Factory/R&D

The Mentholatum Company of Canada Ltd.

45 Hannover Drive, Unit 2
St. Catharines, Ontario L2W 1A3
Canada

- Management (former and current): Len Dowsett, Francis Chan, Greg Lewis, Glen Busby, Marko Bukovec, Heather McCluckie
- Major Brands/Products: Oxy, Softlips, Deep Relief, Wellpatch, Phisoderm, Mentholatum Ointment, and Provacare

Mentholatum de México S.A. de C.V.

Arquímides # 199 Piso 3 Oficina 302, Col. Polanco Chapultepec
Delegación Miguel Hidalgo
CP 11
Mexico

- Management (former and current): Veronica Romero, and Shinjan Xie,
- Major Brands/Products: Mentholatum Ointment, Termorub, Oxy, Hadalabo Tokyo, Rohto eye drops, Lip Ice, and Mentholatum Men's

Rohto Mentholatum do Brasil Comercio de Produtos para Saude Ltda.

Alameda Santos, 1767, 7º Andar, sala 709
CEP 01419-100
Sao Paulo-SP
Brazil

- Management (former and current): Shinjan Xie and Roberta Baldini
- Major Brands/Products: Lip Ice cube, Lip Ice regular, Lip Ice sheer color, Oxy, and Perfecta Mama

The Mentholatum Company Limited

1 Redwood Avenue
Peel Park Campus
East Kilbride, G74 5PE
Scotland

- Management (former and current): Bron Gorney, Andrew Tasuka, Rob Yateman, Douglas Smart, Collin Brown, and Gillian Watt
- Major Brands/Products: Deep Heat Rub,

Deep Heat Patch, Deep Freeze, Deep Heat Spray, Deep Freeze Patch, Muscle Rescue, and Deep Heat Roller Ball

- Factory/R&D

Mentholatum Continental Europe

Duchnów, ul. Spacerowa 18

05-462 Wiązowna

Poland

- Management (former and current): Morey Forbes, Maciej Misztak, and Tomae Giembicki
- Major Brands/Products: Deep Heat Rub, Deep Relief, Deep Freeze spray, Deep Heat Patch, Mentholatum Ointment, Selsun, Stop-n-Grow, and Regenovex

DAX Cosmetics

Duchnów, ul. Spacerowa 18

05-462 Wiązowna

Poland

- Management (former and current): Ewa Blocker, Maciej Misztak, Akiyoshi Yoshida, Steve Hossenlopp, Tomasz Giembicki, Grazyna Pomiechowska, and Masaya Saito
- Major Brands/Products: Perfecta, Dax-

san, Yoskin, Cashmere, Dax-Men, Hadalabo Tokyo, and Ceria

- Factory/R&D

Mentholatum South Africa (Pty) Ltd.

1st Floor Silverberg Terraces

Steenberg Office Park

Tokai 7945

Cape Town

South Africa

- Management (former and current): Uys Pretorius and Andrew Lawlor
- Major Brands/Products: Deep Heat, Deep Freeze, Oxy, Mentholatum Ointment, Selsun, Softlips, Eskamel, and Deep Relief

Rohto Mentholatum Russia

Роhto Ментолатум РУ

Россия, 125167

Москва, Ленинградский проспект, 37, оф.

12/12.6.1

- Management (former and current): Pavel Karpus and Maciej Misztak
- Major Brands/Products: Dax products, Rohto products, and Mentholatum products

1988 - 2019



Cherry Trees in Orchard Park

Subsidiaries - Factories and Offices



Mentholatum Australia



Mentholatum U.K.



Dax Cosmetics



RM Russia



Mentholatum Canada



Mentholatum S. Africa



Mentholatum de Mexico



RM Do Brazil



Mentholatum Company, Orchard Park, USA



Mentholatum (China)



Mentholatum (Asia-Pacific)



MCL Factory



RM Thailand



Mentholatum Taiwan Limited



RM Malaysia



RM Singapore



RM Korea



ROHTO

 **Mentholatum**