

Gentlemen
Marketing Agency



Agence Marketing Chine
(Gentlemen Marketing Agency)
est une agence de communication
qui accompagne les entreprises
dans leur stratégie digitale
et marketing en Chine.

CHINA'S COSMETICS MARKET

ANALYTICAL REPORT

N1220 Jiangning Street Melody Square Building 8 Room 101, Shanghai, China
上海市江宁路1220弄音乐广场8号楼101

Agence.marketing-chine.com

contact@agence.marketing-chine.com

(+86)- 21-623 105 20

COSMETICS IS ONE OF CHINA'S MOST PROMISING AND THRIVING MARKET

China, is the second richest country in the world in terms of GDP, posts an economic growth of around 7.5% this year, supported by a strong domestic demand, especially thanks to the importance of China's population, estimated at 1.3 billion inhabitants. Thus, China's GDP growth rate is still the world's highest one, as this has been the case for the last ten years. Nevertheless, China is still a developing country. The growth potential of some markets, boosted by an increasing domestic growth, is therefore undeniable and sometimes untapped, leaving room for foreign and western companies. What are China's most promising and thriving markets in 2014, and which to invest in? Cosmetics market is one of the top 5.

In China, cosmetics is literally booming: this is **the most dynamic consumer goods' sector**. China is now **the first emerging cosmetics market** and **the second most important cosmetics market in Asia**, just behind Japan. **80% of China's cosmetics market is dominated by foreign brands**. The growth in the sales of medical cosmetics and care products for children and men is particularly strong.

China's cosmetics market has great potential for foreign companies, and especially western ones, when we acknowledge that Chinese consumers are fascinated by high-end western cosmetics brands. E-Commerce is an excellent way to break into this market among major brands which already exist, monopolizing traditional distribution channels.

ONLINE COSMETICS MARKET



闺蜜网
www.kimiss.com

China's E-Commerce market is booming: Chinese consumers are more and more numerous to consume and buy online, especially women. Indeed, most of online buyers are female customers. Women spend more money on Internet and buy more frequently online (in particular on E-Commerce websites) than men. Cosmetics products are ranked in the top 5 of products purchased by Chinese online. Today, **Internet purchases represents 25% of China's cosmetics market**. More and more Chinese consumers buy their cosmetics products online, especially women. Why do they buy their cosmetics products online? The main reason is that they can find all the existing brands on the web, international as well as local ones. They especially use major E-Commerce platforms such as Tmall, JD and Kimiss to find and order their products. Kimiss is a very famous and successful online platform specialized in beauty and cosmetics.

SOME OF THE WORLD'S LARGEST COSMETICS EXHIBITIONS TAKE PLACE IN CHINA

THE EXAMPLE OF CHINA BEAUTY EXPO



Every year in May takes place China Beauty Expo in Shanghai, considered to be one of the world's largest cosmetics exhibitions, and divided into three exhibition spaces: Cosmetics China, dedicated to cosmetics products, skin care products and perfumes, Cosmetech Shanghai, dedicated to equipment, packaging and ingredients, and Beauty Shanghai, dedicated to professionals and spa products.

In 2013, **Shanghai New International Expo Center**, offering 120,000 m² of exhibition space, welcomed 1,657 exhibitors from 22 countries and regions and from 34 Chinese provinces and municipalities, 257 exhibitors from overseas countries and 245,200 professional visitors. Shanghai China Beauty Expo represents one of the most powerful exchange platforms for cosmetics brands from all over the world, aiming at penetrating Asia's growing market. Shanghai China Beauty Expo, supported by China's Commerce Minister, is undoubtedly an event you must not miss. The exhibition is a unique opportunity to know the new cosmetics trends. China Beauty Expo, which was originally reserved for professionals, is now both a B2B and B2C exhibition. Samples with discounts are offered for sale.

The year 2014 (19th edition of the exhibition) was characterized by the emergence of some new and ambitious Chinese brands, which have started their business as producers and then decided to create and launch their own brand. Their strategies are as follows: calling upon stars to promote their brand, invest, claim the "Made in China". These brands represent a new generation of Chinese cosmetics brands, following the model of Herborist, the Chinese premium brand owned by Jahwa Group, leader on China's cosmetics market. Chinese manufacturers seem to aim at moving upmarket.

Shanghai Beauty Expo is always very successful: every year, the exhibition space is overcrowded with visitors, and all the cosmetics players in China come out especially for the occasion, from hairstylists to directors of world-famous cosmetics brands. The exhibition also attracts a large number of media. Shanghai China Beauty Expo has confirmed its position as the leader on Asia's market.



THE IMPRESSIVE
GROWTH OF CHINA'S
COSMETICS MARKET

COSMETICS PRODUCTS CONSUMPTION



China has the world's largest number of web users: 632 million web users have been registered in June 2014, with a 14-million growth since January. Thus, IWOM (Internet Word of Mouth) is becoming increasingly influential in China: most of Chinese consumers now read appreciations, comments and opinion from other web users and take them into account before making a purchase decision. This is especially the case for cosmetics products. The Chinese web offers numerous interactive websites dedicated to the cosmetics universe, mainly targeting women, such as Meilishuo, Mogujie and 55bbs.

Meilishuo is the most famous and influential website specialized in fashion, beauty and cosmetics for young Chinese women. The website, created in 2009, looks like a kind of shopping guide, aiming at helping Chinese women find clothes, bags, shoes, accessories, beauty and cosmetics products. Web users have the possibility of sharing their opinion and recommending some brands and products. Meilishuo is one of the main sources of IWOM regarding the cosmetics industry.

HIGH-END COSMETICS IN CHINA

THE DYNAMISM OF COSMETICS MARKET AND THE POTENTIAL OF A HIGH-END POSITIONING IN CHINA

The dynamism of China's cosmetics market

China's cosmetics market is thriving: it has been experiencing a significant growth for a few years, becoming the country's most dynamic consumer goods sector and the second most important Asia's cosmetics market, just behind Japan. Chinese consumers no longer see cosmetics and beauty products as an unaffordable luxury, exclusively dedicated to a particular class of customers, but as current consumption goods or even basic necessities as far as beauty products are concerned. Today, Chinese cosmetics market represents more than 134 billion CNY (more than 17 billion euros), compared with only 200 million CNY (26 million euros) at the beginning of the 1980's.

International brands are leading the industry: they occupy 54% of China's cosmetics market. The American brand Procter & Gamble is ahead, followed closely by L'Oréal. Then come the Japanese group Shiseido and Unilever. As a result of the tremendous rise of China's cosmetics industry, foreign brands are becoming ever more numerous, and competition ever tougher. The main foreign investors come from the United States, France, Japan, South Korean and Germany.

A high-end positioning is to be preferred on China's cosmetics market

Chinese consumers are fascinated by Western high-end brands. This explains the success of foreign brands – and especially Western ones – in the cosmetics sector, and their domination on the market compared to Chinese brands. However, even if foreign brands are in a position of force, Chinese market is evolving very quickly. Local brands are gaining ground and most of them aim to market high quality and high end products as well. Beyond their admiration and fascination for high end Western brands, Chinese consumers are, above all, looking for quality offers and the trend is towards cosmetics products based on natural ingredients. Chinese customers are becoming increasingly demanding and desire to find products which perfectly meet their expectations.

French brands are particularly present in the high end segment, targeting primarily the average and wealthy customer in the most developed cities of China. French cosmetics and personal care products reflects a quality and innovative image in Chinese consumers' mind.

French and foreign cosmetics companies have an interest in penetrating the market by asserting a high end positioning: this strategy will allow them to develop their business under optimal conditions in China. Demand remains high and often unsatisfied in China's second- and third-tier cities.

In terms of cosmetics offers, make-up and perfumes seem to hold an untapped potential: according to some studies, about 90% of Chinese women use cosmetic creams, while only a third of them use make-up and less than 10% wear a perfume. The American brand Estée Lauder, which occupies the 5th position on China's cosmetics market and records a sales rise of 13% in 2011 to reach a 6.2 billion euros turnover, understood this and now concentrates all its efforts on make-up and perfumes to attract Chinese customers and gain vacant market shares in order to take a lead on other high end foreign brands. Estée Lauder is thus preparing the launch of several fragrances, only dedicated to Chinese customers. The brand, known to design specific brands, adapted to the needs of particular countries, has already launched Nutritious, a brand dedicated to the Chinese market, aiming to attract Chinese women.

L'Oréal had to adapt and assert a high end positioning

L'Oréal, for which China has become one of the most important markets, aims to conquer 250 million new consumers by 2020. That is why the group has recently decided to stop selling its brands Garnier – which is its second brand in terms of turnover – in China. Garnier, which is a brand for general public, had never been a great success in China: not high end enough to arouse the average and wealthy customer, and not low cost enough to attract other Chinese consumers, constantly looking for discounts and good deals. Unlike India, where L'Oréal has penetrated the market thanks to Garnier and its general public positioning, in China, the group has found its place on the local market thanks to a high end positioning strategy, by playing the card of affordable luxury.

In terms of distribution, L'Oréal has decided to sell its products in major cosmetics distribution chains and hypermarkets, but essentially with a seller dedicated to customer advice, in order to be distinguished from cosmetics mass-consumption products and maintain its high end image in Chinese customers' mind. The group adopts the same positioning strategy with its make-up brand Maybelline, leader in make-up in China.

Artistry, the luxury cosmetics brand of the American group Amway

Amway, the American group specialized in high end nutritional and cosmetics products, is thriving in China, especially thanks to its cosmetics products offer, marketed under the brand name “Artistry”. Thanks to a wide range of skincare and make-up products, the high end positioning brand, has succeeded in reflecting a prestigious image in Chinese customers' mind. Artistry does not play the card of affordable luxury such as L'Oréal: on the contrary, the brand aims to be only affordable for a very wealthy customer. This positioning strategy is very efficient in a country which records an increasing number of wealthy and very wealthy individuals.





MORE COMPETITION
AND CHALLENGE FOR
COSMETICS BRANDS

CHINA'S COSMETICS MARKET

ANALYTICAL REPORT

China's economic development is steadily growing. The country's GDP has increased by 7.7% from 2012 to 2013. As a result, China is now the second largest country in the world in terms of GDP, just behind the United States. In 2014, China posts an economic growth of around 7.5%, supported by a strong domestic demand, especially thanks to the importance of China's population, estimated at 1.3 billion inhabitants. Thus, China's GDP growth rate is still the world's highest one, as this has been the case for the last ten years. Nevertheless, China is still a developing country. The growth potential of some markets, boosted by an increasing domestic demand, is therefore undeniable and sometimes untapped, leaving room for foreign companies.

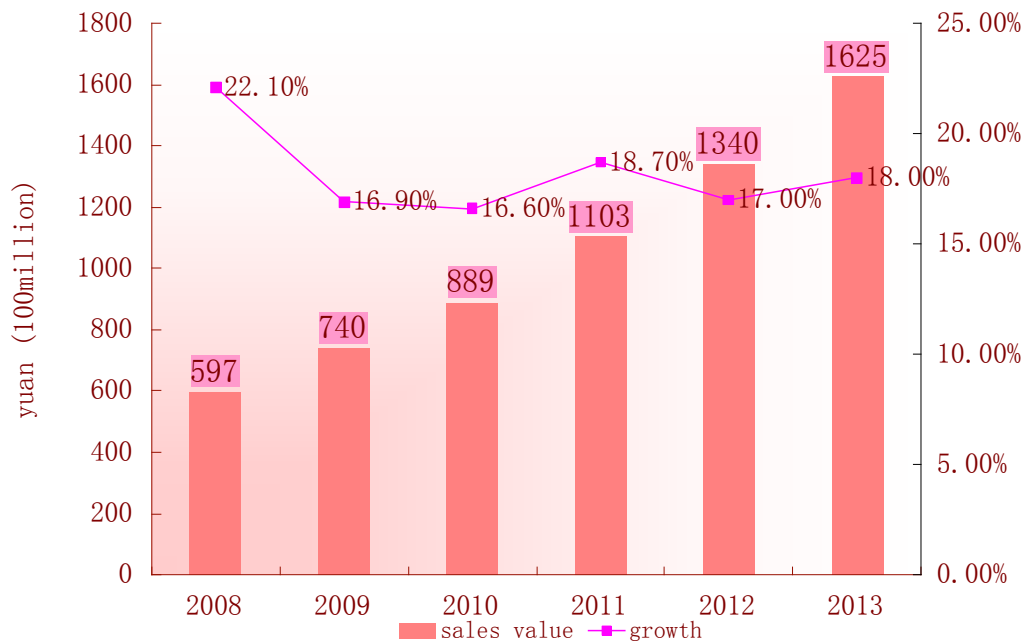
What are China's most promising and thriving markets in 2014, in which to invest? Cosmetics market is one of them.

I - The impressive growth of China's cosmetics market

China's cosmetics market is thriving: it has been experiencing a significant growth for a few years. In 1987, the total production was valued at 1.8 billion Yuan and the number of companies present on this market was estimated at only 100. In 2013, the data showed that there were more than 3,300 companies specialized in cosmetics in China and more than 50 companies whose production was valued at over 100 million Yuan. Today, Chinese cosmetics market represents more than 134 billion CNY (more than 17 billion Euro). According to the National Bureau of Statistics of China (NBS), cosmetics companies' retail sales reached 162 billion Yuan in 2013, with growth year over year in excess of 18%.

Cosmetics are **China's most dynamic sector of consumption goods**. Chinese consumers no longer see cosmetics and beauty products as an unaffordable luxury, exclusively dedicated to a particular class of customers, but as current consumption goods or even basic necessities as far as beauty products are concerned. China is now **the first emerging cosmetics market** and **the second most important cosmetics market in Asia**, just behind Japan. **80% of China's cosmetics market is dominated by foreign brands.**

retail value of cosmetics:2008-2013



What is the reason why China’s Cosmetics Market registers such an exponential growth? This can be explained as follows:

1 – Higher salaries, purchasing power and living standards in China

Chinese are the biggest consumers of luxury products in the world, especially when they travel abroad. Thus, Chinese tourists have become one of the main target clientele of luxury shops. This phenomenon acts as a proof of the rise of Chinese’s purchasing power. Wealthy Chinese people are not the only ones buying expensive products from luxury brands: a whole generation of Chinese can now afford it. As a result, cosmetics industry has been developing at a high speed, as to be one of China’s most promising and thriving markets.

2 – Chinese women are increasingly paying attention to beauty and physical appearance

Beauty and physical appearance have always occupied a prominent place in China's society and culture. Indeed, China's society trusts that a pretty woman is more likely to get a good job, find a good husband and have a better and more fulfilling life. In the past, cosmetics products meant only skincare products. In Chinese people's mind, make-up was not something natural. Thus, this was not considered as a necessity.

However, China's society has been influenced by western culture, through movies and women's magazines. As a result, Chinese women have started to increasingly pay attention to their physical appearance. In this matter, cosmetics products can meet their needs.

They are especially attentive of skin care and make-up, at younger and younger ages, and are ready to spend more money in cosmetics products.

Although the consumption of skincare products remains dominating, demand for make-up and perfume is increasing at a high speed. These cosmetics products have broken into Chinese's consumption habits.

II - More competition and challenge for cosmetics brands

As a result of China's accession to the WTO in 2001, a huge number of international players have entered into China's marketplace. Cosmetics have become a mature market in China. Competition between foreign and domestic brands has been intensified.

1-Cosmetics brands have to gain the trust of Chinese consumers

Chinese consumers are very suspicious by nature. Thus, they are extremely careful about brands' reputation. Benefiting from a good reputation is necessary for cosmetics brands to gain the trust of Chinese consumers and beat the competition.

That is why cosmetics brands become more and more conscious about their reputation and try to control it, by conducting media and Press Relations operations. Nowadays, with the craze for social media and e-commerce, the Internet plays an important role for a brand's reputation. Controlling one's reputation online is absolutely necessary for a brand which aims to conquer China's cosmetics market. A positive reputation on the Chinese web is very efficient to reassure customers, asserting the quality, safety and reliability of products.

2–Several market positioning and natures of products

China's cosmetics market is subdivided into several market positioning and natures of products, according to their composition or function (for example, medical or organic cosmetics). Choose the right market positioning and focus on a specific composition or function enable the brand to select a specific target clientele and benefit from a competitive advantage over its main competitors. For that, it is important to know and understand the market and consumption needs in-depth.

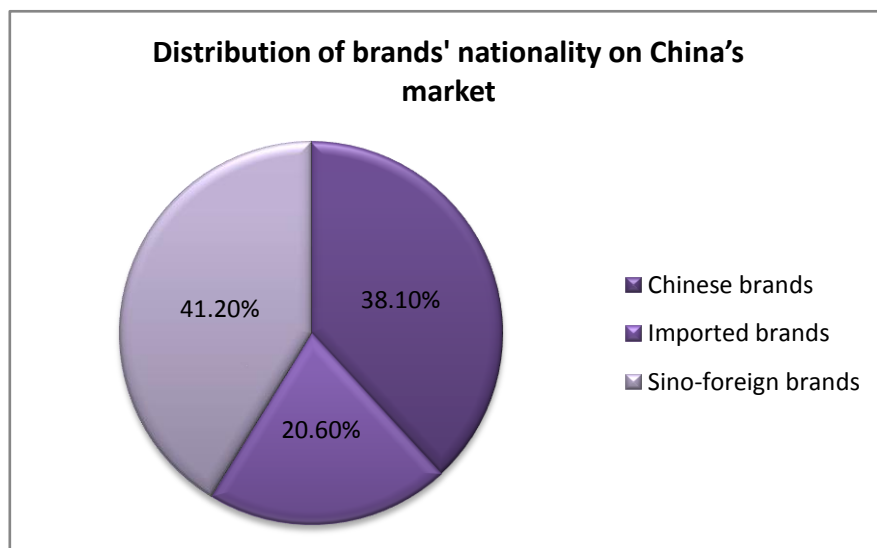


**BIG OPPORTUNITIES
FOR FOREIGN
COSMETICS BRANDS**

III–Big opportunities for foreign cosmetics brands

International brands are leading China's cosmetics industry. The American brand Procter & Gamble is ahead, followed by L'Oréal. Then come the Japanese groups Shiseido and Unilever. The main foreign investors come from the United States, France, Japan, South Korea and Germany.

As a result of the tremendous rise of China's cosmetics industry, foreign brands are becoming ever more numerous, and competition ever tougher.



Sino-foreign brands occupy the largest part of the whole market (41.2%) while domestic brands occupy 38.1% and import brands, 20.6%. Foreign companies are the major players: Indeed, they occupy 70% of the market (both imported and sino-foreign brands).

American companies are among the largest suppliers on China's cosmetics market as some big multinational brands such as P&G, Avon, Mary Kay have entered early into China's market and offer a large range of products. France is ranked second: many luxury brands have succeeded in breaking into China's cosmetics market. There are also a lot of brands from Germany, Switzerland, Japan and South Korea.

In recent years, Korean brands have become very popular on China's cosmetics market. Why are Korean cosmetics brands so successful? The main reasons of their success are as follows:

- Korean brands' products are designed and claimed to be more appropriate for people with a yellow skin tone.
- Korean brands' are familiar with China's culture, system and business practices.
- Korean brands' have better knowledge of China's market and are efficient in Research and Development

Big foreign cosmetics groups and major brands on China's Cosmetics market

| Groups | Brands | | |
|---|---|--|--|
| L'Oréal 欧莱雅  | L'Oréal Paris 巴黎欧莱雅 Maybelline 美宝莲 Lancôme 兰蔻 shu uemura 植村秀 | Giorgio Armani 治阿玛尼 Yue sai 羽西 Vichy 薇姿 La roche-posay 理肤泉 | Biotherm 碧欧泉 Helena binstein HR赫莲娜 Kiehl's 科颜氏 Mininurse 小护士 |
| P&G 宝洁  | Olay 玉兰油 SK-II Oceana 海肌源 | Head & shoulders 海飞丝 Rejoice 飘柔 Vidal Sasson 沙宣 Pantene 潘婷 | Safeguard 舒肤佳 Camay 卡玫尔 Clairol 伊卡璐 Gillette 吉列 |
| Shiseido 资生堂  | Shiseido 资生堂 Clé de peau beauté 珂丽柏蒂 Aupres 欧珀莱 Urara 悠莱 | UNO 吾诺 DQ 蒂珂 Za 姬芮 PURE&MILD泊美 AQUA LABEL水之印 | Perfect 洗颜专科 Tsubaki丝蓓绮 Aquair水之密语 Super Mild 惠润 |
| Estée Lauder 雅诗兰黛  | Estée Lauder雅诗兰黛 Clinique 倩碧 | La mer 海蓝之谜 Origins 品木宣言 | M.A.C 魅可 BOBBI BROWN 比波朗 Darphin 迪梵 |

Domestic brands represent 30% of China's cosmetics market but only occupy 10% of the make-up market. However, foreign players still consider Chinese brands as big competitors for the following reasons:

- Chinese companies can adapt more easily to China's market and adjust themselves faster to market changes than most of foreign companies.
- Chinese private companies are expected to develop faster as China's new policy allows them to gain access to bank loans and stock markets, in favor of their business expansion.
- Chinese companies are able to compete more efficiently as they benefit from local advantages and are closer and more familiar to China's laws, system, business environment, culture and market.

The reasons why China's cosmetics market still has a tremendous potential and offers big opportunities for foreign cosmetics brands:

- **Chinese consumers do not trust in the domestic brands** : Chinese consumers are very suspicious and careful about the safety and quality of products, especially for cosmetics products as they use them directly on their face and body. They are looking for efficient products as well as safety and healthy products. Because of a weak financial ability, lack of Research and Development and lack of experience in brand management and marketing, China's cosmetics brands are often subjected to bad news and scandals. As a result, they lose Chinese consumers' trust, who are now more and more numerous to prefer buying foreign cosmetics products.

➤**Chinese people prefer famous brands:**China's domestic brands are more recent than foreign ones. The latter have been enjoying a branding reputation for a long time and have accumulated lots of fans in China. As reputation is very important for Chinese consumers, they are more likely to choose the biggest and most influential brands on China's cosmetics market.

China's cosmetics market has great potential for foreign companies, and especially western ones as a lot of Chinese consumers are fascinated by high-end western cosmetics brands. This explains the success of foreign brands – and especially Western ones – in the cosmetics sector, their domination on the market compared to Chinese brands and why a high-end positioning is to be preferred for foreign brands on China's cosmetics market. However, even if foreign brands are in a position of force, Chinese market is evolving very quickly. Local brands are gaining ground and most of them aim to market high quality and high end products as well. Beyond their admiration and fascination for high end western brands, Chinese consumers are, above all, looking for quality offers and the trend is towards cosmetics products based on natural ingredients. Chinese customers are becoming increasingly demanding and desire to find products which perfectly meet their expectations.

French brands are particularly present in the high end segment, targeting primarily the average and wealthy customer in the most developed cities of China. French cosmetics and personal care products reflect a quality and innovative image in Chinese consumers' mind.

French and foreign cosmetics companies have an interest in penetrating the market by asserting a high end positioning: this strategy will allow them to develop their business under optimal conditions in China. Demand remains high and often unsatisfied in China's second- and third-tier cities.

In terms of cosmetics offers, make-up and perfumes seem to hold an untapped potential: according to some studies, about 90% of Chinese women use cosmetics creams, while only a third of them use make-up and less than 10% wear a perfume. The American brand Estée Lauder, which occupies the fifth position on China's cosmetics market and recorded a sales rise of 13% in 2011 to reach a 6.2 billion Euro turnover, has understood this and now concentrates all its efforts on make-up and perfumes to attract Chinese customers and gain vacant market shares in order to take a lead on other high end foreign brands. Estée Lauder is therefore preparing the launch of several fragrances, exclusively dedicated to Chinese customers. The group, known to design specific brands adapted to the needs of particular countries, has already launched Nutritious, a brand dedicated to China's market, aiming to attract Chinese women.

L'Oréal had to adapt and assert a high end positioning

L'Oréal, for which China has become a key market, aims to conquer 250 million new Chinese consumers by 2020. That is why the group has recently decided to stop selling its brands

Garnier – which is its second brand in terms of turnover – in China. Indeed, Garnier, which is a brand for general public, had never been a great success in China: not high end enough to arouse the average and wealthy customers' interest, and not low cost enough to attract other Chinese consumers, constantly looking for discounts and good deals. Unlike India, where L'Oréal has penetrated the market thanks to Garnier and its mass-market positioning, the group has broken into China's market thanks to a high end positioning strategy, by playing the card of affordable luxury.

In terms of distribution, L'Oréal has decided to sell its products in major cosmetics distribution chains and hypermarkets, but essentially with a seller in charge of giving advice to customers, in order to be distinguished from cosmetics mass-consumption products and maintain its high end image in Chinese customers' mind. The group adopts the same positioning strategy with its make-up brand Maybelline, the leader of make-up in China.

Artistry, the luxury cosmetics brand of the American group Amway

Amway, the American group specialized in high end nutritional and cosmetics products, is thriving in China, especially thanks to its cosmetics products offer, marketed under the brand name "Artistry". Thanks to a wide range of skincare and make-up products, the high end positioning brand has succeeded in reflecting a prestigious image in Chinese customers' mind. Artistry does not play the card of affordable luxury such as L'Oréal: on the contrary, the brand aims to be only affordable for highly wealthy customers. This positioning strategy is very efficient in a country which records an increasing number of wealthy and very wealthy individuals.

IV

THE MOST SUCCESSFUL COSMETICS PRODUCTS ON CHINA'S COSMETICS MARKET

IV – The most successful cosmetics products on China’s cosmetics market

In order to remain competitive and benefit from this lucrative market, more and more cosmetics brands use market entry strategies such as localized production, acquisition and establishment of their own stores and chain of beauty salons.

The most popular cosmetics products for Chinese are as follows:

1 - Whitening products

In China’s and Asia’s culture, white skin is considered as being more beautiful. Thus, both foreign and domestic brands have developed and launched some whitening products. For instance, Dior has invested in Research and Development and launched “the Dior Snow Collection”, a product line composed of skincare and make-up whitening products dedicated to Asia’s Market.

2 - Moisturizing products

Due to climate and food habits, Chinese people are more likely to have a dry skin. Generally, if they do not have other needs or skin problems, most of Chinese women choose moisturizing products as a basic skincare.

3 - Anti-acne products for young people

Anti-acne products targeting teenagers and young people suffering from acne have also become very popular in China. Cosmetics products dedicated to teenagers and young people have great potential. Thus, many brands have expanded their product lines and launched anti-acne products to reach this specific target.

4 – Skin protection products

In China, smog is a very serious problem, especially in the biggest cities. Air pollution has adverse effects on skin and is a cause of many skin problems. That is why skin protection products have great potential and are becoming increasingly popular.

5 -Medical and cosmeceutical products

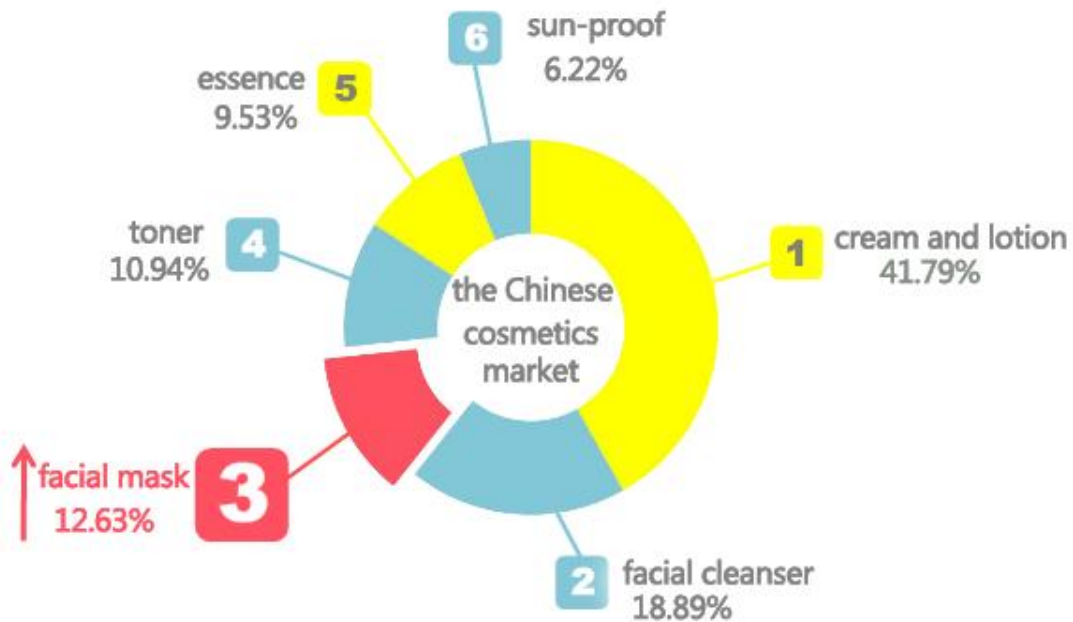
In recent years, Chinese have heard much about chemical ingredients used to produce cosmetics products and their possible damages to health. Thus, they have become more suspicious about cosmetics products and now pay more and more attention to safety and quality, for example by checking cosmetics products’ composition before any purchase. That is why Chinese people, and especially women, prefer buying medical and cosmeceutical products.

6 - Cosmetics based on Chinese medicine

Some Chinese brands such as Inoherb and Herborist have developed a wide range of cosmetics products based on Chinese medicine. Chinese consumers trust in Chinese medicine and strongly believe that these products are healthier, softer and more natural.

7 – The success of facial masks

The main cosmetics products on China's market



Source: China's cosmetics market research report (2013)

The graphic above shows that cream and lotion remain the main basic skincare products on China's cosmetics market, occupying almost 42% of the whole market. Then come facial cleansers with 19% market share. Facial masks have reached the third rank, becoming commonly used by Chinese people and especially women. Sales volume have registered a 31% average growth rate (the highest among all cosmetics products) from 2011 to 2012. In 2012, the number of brands specialized in facial masks has increased by 400% and the sales were evaluated at 110 million Yuan. According to estimates, the sales of facial masks are expected to reach 300 million Yuan by 2015.

China's market covers various brands specialized in facial masks such as MG and My Beauty Diary. In addition, many Chinese and foreign big brands such as Inoherb, Lancôme and Olay have also developed their own product lines of facial masks, with similar positioning and prices.

V – Trends in the cosmetics industry in 2014



1 – China’s cosmetics market has registered sustained growth for the past few years. China is now the largest emerging cosmetics market in the world.

2 –China’s second- and third-tier cities have recorded stronger cosmetics sales growth than the biggest cities in recent years.

3 –China’s cosmetics products can be classified into two major segments: mass-market products and high-end products. Chinese consumers do not really buy medium-range cosmetics. That is the reason why L’Oréal recently stopped to sell its medium-range brand Garnier in China. This segment is not successful on China’s cosmetics market.

4 – The trend on China’s cosmetics market is to premium products and upmarket

➤The rise of living standards and the greater presence of premium and high-end brands in second- and third-tier cities support premium cosmetics sales growth.

➤To meet the rising demand for high-end cosmetics, a large number of International and local brands aim at moving upmarket to penetrate this segment.

➤Some Chinese brands have launched premium products to compete with International players.

5 – Brands are striving to improve their competitiveness

Competition is becoming tougher and tougher on China’s cosmetics market, while Chinese consumers are more and more demanding and have more sophisticated needs and expectations. Thus, both International and domestic cosmetics brands are striving to remain competitive, by increasing efforts to expand their range of products, develop functional products and improve their packaging.

6 –B2C online actors are tapping into brick and mortar retailing

While a lot of cosmetics brands have been expanding into online retailing in the past few years, some B2C brands are starting to break into store-based retailing to gain market share.

7 – The market of cosmeceutical products is growing

➤More than 170 companies have tapped into China’s cosmeceutical market. According to estimates, China’s cosmeceutical sector is expected to grow by 10% to 20% every year to reach 20 billion yuan in three of five years. Local cosmetics brands specialized in herbal products play an important and active role in this sector.

➤Many players have broken into the cosmeceutical market in the past few years.

➤China’s cosmeceutical market recorded annual sales growth of up to 10 to 20% between 2004 and 2012, with a 20% to 40% growth in market share, surpassing Europe’s and the United States’ market.

➤Although China’s cosmeceutical market has been dominated by foreign brands such as Avene, Vichy, La Roche-Posay, Sulwhasoo and Freeplus for a long time, Inoherb and

Herborist, two domestic cosmeceutical brands, ranked first and second respectively in terms of notoriety in 2012, surpassing the foreign cosmeceutical brand Avene, ranked third.

➤The dominant position of foreign cosmeceutical brands is being challenged by some promising local brands.

8 – China’s market of men’s grooming is surging

➤Men’s grooming market recorded a 20% annual sales growth to reach 5.518 billion yuan in 2011.

➤Men’s skin care products are particularly successful, showing the highest sales growth (34% per year), while men’s toiletries registered a 26% sales growth per year.

➤To break into the promising and lucrative market, a lot of foreign and local brands have launched product ranges dedicated to men.

➤Some major players are striving to launch more new products in order to reach different target clientele and meet their needs.

9 - Children and baby care market is booming

➤Retail sales of China’s children and baby care products continue to register strong growth, with a 17% annual growth to reach 4.852 billion yuan in 2011. According to estimates, they will hit 9.263 billion yuan by 2016.

➤Johnson’s Baby, Frog Prince, Yumeijing, Elsker, Pigeon and Hai Er Mian are the major players in the market.

➤The market has been dominated by Johnson’s Baby, a foreign brand, for a long time (occupying a market share of about 50%). However, the brand is now losing market shares. Meanwhile, some local brands have experienced strong growth, grabbing market shares. The leading Chinese brand, Frog Prince, saw its market share increase from 3.3% in 2008 to 6.9% in 2011.

➤To meet the rising demand for children and baby care products, the number of retail stores offering these kinds of products has grown rapidly in the past few years. Retailers such as Redbaby, Lijiababy and Leyou have set up numerous retail stores selling skincare products dedicated to expectant mothers, children and babies.

➤Some cosmetics brands have also created skin care products reserved for expectant mothers, children and babies.

10 - Anti-aging products are gaining notoriety

➤Anti-aging products have succeeded in reaching their target clientele (and particularly Chinese women) in recent years.

➤Some major cosmetics players have invested a lot in anti-aging products and gained market shares.

➤Most of anti-aging product brands are positioned in the high-end segment. Thus, some major players have created lower-cost anti-aging products, targeting the mass-market segment.

11 - Green cosmetics products are becoming increasingly popular

➤Green products designate products which are better for health and have less impact on the environment.

➤Chinese consumers looking for green cosmetics are increasingly numerous.

➤Aware of the great potential of green cosmetics products, a lot of foreign and local brands have broken into the sector.

➤The main reason for the success of green cosmetics products is that Chinese consumers are suspicious by nature and are constantly looking for safe and reliable products.

➤Cosmetics products made with natural and chemical-free ingredients benefit from this trend.

12 - Some old brands aim to rejuvenate

➤Some old Chinese brands such as Pechoin, Maxam, Shanghai Vive, Liushen and Zhaogui have aimed to rejuvenate in recent years. Thus, they invest a lot in Research and Development and Innovation, and launch new product ranges in order to regain their competitiveness as well as lost market shares.

➤Shanghai Vive is the best illustration of this trend: the local brand has been founded in 1898 and rapidly been overtaken by new promising and competitive brands. Shanghai Vive has caught on again upon its revival in 2010. The brand has changed its product formula and package and launched new cosmetics products targeting the mid-to-high end segment in the past few years. Shanghai Vive has also successfully set up 15 retail stores in China's major cities such as Shanghai, Beijing and Chengdu in 2012.

13 – More rules and regulations for China’s cosmetics industry

- Product safety has always been a major issue on China’s cosmetics market.
- Chinese consumers are now becoming more suspicious and demanding. Further rules and regulations are expected to be voted by the Chinese government to regulate the country’s cosmetics industry more efficiently.

14 - Foreign cosmetics brands occupy a larger market share in key cities

- Foreign cosmetics brands have been expanding rapidly and occupy a larger market share (around 70%-80%) in China’s biggest cities than domestic brands.
- China’s leading foreign cosmetics group is L’Oréal.

15 - Domestic cosmetics brands are leading in lower tier cities

- Domestic cosmetics brands have made great strides in lower tier cities in recent years.
- China’s leading domestic cosmetics group is Shanghai Jahwa.

V

TRENDS IN
THE COSMETICS
INDUSTRY IN 2014

There are several websites specialized in cosmetics on the Chinese web. The most popular are Jumei Youpin and Lefeng.

Jumei Youpin is China's first and largest cosmetics group buying website. This is also China's first and largest online mall offering flash sales of cosmetics. Today, Jumei is no longer a typical group buying website; it has successfully transformed itself into a vertical B2C website.

Lefeng is another large online shopping mall on the Chinese web. This is the first cosmetics website calling upon some Chinese stars. Lefeng also provides fashion tips.

2 – Big brands' official websites

Some big brands such as Lancôme, Clinique and Clarins offer consumers the possibility of buying cosmetics products directly on their official websites.

3 -BigE-Commerce platforms

Most of E-Commerce platforms such as Taobao, Tmall, Jingdong, Amazon and Yihaodian (both global and Chinese platforms) reference cosmetics brands and sell their products.

15 TRENDS IN THE COSMETICS INDUSTRY IN 2014



1 – China’s cosmetics market has registered sustained growth for the past few years. China is now the largest emerging cosmetics market in the world.

2 –China’s second- and third-tier cities have recorded stronger cosmetics sales growth than the biggest cities in recent years.

3 –China’s cosmetics products can be classified into two major segments: mass-market products and high-end products. Chinese consumers do not really buy medium-range cosmetics. That is the reason why L’Oréal recently stopped to sell its medium-range brand Garnier in China. This segment is not successful on China’s cosmetics market.

4 – The trend on China’s cosmetics market is to premium products and upmarket

-The rise of living standards and the greater presence of premium and high-end brands in second- and third-tier cities support premium cosmetics sales growth.

-To meet the rising demand for high-end cosmetics, a large number of International and local brands aim at moving upmarket to penetrate this segment.

-Some Chinese brands have launched premium products to compete with International players.

5 – Brands are striving to improve their competitiveness

-Competition is becoming tougher and tougher on China’s cosmetics market, while Chinese consumers are more and more demanding and have more sophisticated needs and expectations. Thus, both International and domestic cosmetics brands are striving to remain competitive, by increasing efforts to expand their range of products, develop functional products and improve their packaging.

6 –B2C online actors are tapping into brick and mortar retailing

-While a lot of cosmetics brands have been expanding into online retailing in the past few years, some B2C brands are starting to break into store-based retailing to gain market share.

7 – The market of cosmeceutical products is growing

-More than 170 companies have tapped into China’s cosmeceutical market. According to estimates, China’s cosmeceutical sector is expected to grow by 10% to 20% every year to reach 20 billion yuan in three of five years. Local cosmetics brands specialized in herbal products play an important and active role in this sector.

-Many players have broken into the cosmeceutical market in the past few years.

-China's cosmeceutical market recorded annual sales growth of up to 10 to 20% between 2004 and 2012, with a 20% to 40% growth in market share, surpassing Europe's and the United States' market.

-Although China's cosmeceutical market has been dominated by foreign brands such as Avene, Vichy, La Roche-Posay, Sulwhasoo and Freeplus for a long time, Inoherb and Herborist, two domestic cosmeceutical brands, ranked first and second respectively in terms of notoriety in 2012, surpassing the foreign cosmeceutical brand Avene, ranked third.

-The dominant position of foreign cosmetics brands is being challenged by some promising local brands.

8 – China's market of men's grooming is surging

-Men's grooming market recorded a 20% annual sales growth to reach 5.518 billion yuan in 2011.

-Men's skin care products are particularly successful, showing the highest sales growth (34% per year), while men's toiletries registered a 26% sales growth per year.

-To break into the promising and lucrative market, a lot of foreign and local brands have launched product ranges dedicated to men.

-Some major players are striving to launch more new products in order to reach different target clientele and meet their needs.

9 - Children and baby care market is booming

-Retail sales of China's children and baby care products continue to register strong growth, with a 17% annual growth to reach 4.852 billion yuan in 2011. According to estimates, they will hit 9.263 billion yuan by 2016.

-Johnson's Baby, Frog Prince, Yumeijing, Elsker, Pigeon and Hai Er Mian are the major players in the market.

-The market has been dominated by Johnson's Baby, a foreign brand, for a long time (occupying a market share of about 50%). However, the brand is now losing market shares. Meanwhile, some local brands have experienced strong growth, grabbing market shares. The leading Chinese brand, Frog Prince, saw its market share increase from 3.3% in 2008 to 6.9% in 2011.

-To meet the rising demand for children and baby care products, the number of retail stores offering these kinds of products has grown rapidly in the past few years. Retailers such as Redbaby, Lijibaby and Leyou have set up numerous retail stores selling skincare products dedicated to expectant mothers, children and babies.

-Some cosmetics brands have also created skin care products reserved for expectant mothers, children and babies.

10 - Anti-aging products are gaining notoriety

-Anti-aging products have succeeded in reaching their target clientele (and particularly Chinese women) in recent years.

-Some major cosmetics players have invested a lot in anti-aging products and gained market shares.

-Most of anti-aging product brands are positioned in the high-end segment. Thus, some major players have created lower-cost anti-aging products, targeting the mass-market segment.

11 - Green cosmetics products are becoming increasingly popular

-Green products designate products which are better for health and have less impact on the environment.

-Chinese consumers looking for green cosmetics are increasingly numerous.

-Aware of the great potential of green cosmetics products, a lot of foreign and local brands have broken into the sector.

-The main reason for the success of green cosmetics products is that Chinese consumers are suspicious by nature and are constantly looking for safe and reliable products.

-Cosmetics products made with natural and chemical-free ingredients benefit from this trend.

12 - Some old brands aim to rejuvenate

-Some old Chinese brands such as Pechoin, Maxam, Shanghai Vive, Liushen and Zhaogui have aimed to rejuvenate in recent years. Thus, they invest a lot in Research and Development and Innovation, and launch new product ranges in order to regain their competitiveness as well as lost market shares.

-Shanghai Vive is the best illustration of this trend: the local brand has been founded in 1898 and rapidly been overtaken by new promising and competitive brands. Shanghai Vive has caught on again upon its revival in 2010. The brand has changed its product formula and package and launched new cosmetics products targeting the mid-to-high end segment in the past few years. Shanghai Vive has also successfully set up 15 retail stores in China's major cities such as Shanghai, Beijing and Chengdu in 2012.

13 – More rules and regulations for China's cosmetics industry

-Product safety has always been a major issue on China's cosmetics market.

-Chinese consumers are now becoming more suspicious and demanding. Further rules and regulations are expected to be voted by the Chinese government to regulate the country's cosmetics industry more efficiently.

14 - Foreign cosmetics brands occupy a larger market share in key cities

-Foreign cosmetics brands have been expanding rapidly and occupy a larger market share (around 70%-80%) in China's biggest cities than domestic brands.

-China's leading foreign cosmetics group is L'Oréal.

15 - Domestic cosmetics brands are leading in lower tier cities

-Domestic cosmetics brands have made great strides in lower tier cities in recent years.

-China's leading domestic cosmetics group is Shanghai Jahwa.

VI

COSMETICS
BRANDS' DISTRIBUTION

VI–Cosmetics brands' distribution

There are several channels for cosmetics distribution: wholesale markets, department stores, supermarkets, chain grocery stores, chain drugstores, specific stores, beauty salons and bodybeauty centers.

In the past years, department stores, hypermarkets and professional beauty retailers have been the most popular distribution channels in the cosmetics industry. Department stores offer a wide range of goods and provide a full shopping experience for consumers. Supermarkets/hypermarkets are some important channels, especially for low-to-mid-range cosmetics products or products with lower unit prices (for instance, shampoo and shower cream).

Cosmetics professional stores enable consumers to buy cosmetics products and accessories from different levels of quality and price in the same store. Watsons, Sasa, Sephora, Gialen and Cosmart are some examples of these cosmetics professional stores.

Besides that, China's E-Commerce market is booming: Chinese consumers are more and more numerous to consume and buy online, especially women. Indeed, most of online buyers are female customers. Women spend more money on the Internet and buy more frequently online (in particular on E-Commerce websites) than men.

Cosmetics products are ranked in the top 5 of products purchased by Chinese online. Today, **Internet represents 25% of China's cosmetics market**. More and more Chinese consumers buy their cosmetics products online, especially women. The main reason is that they can find all the existing brands on the web, international as well as local ones. They especially use big E-Commerce platforms such as Tmall, JD and Kimiss to find and order their products.

E-Commerce is an excellent way to break into this market among major brands which already exist, monopolizing traditional distribution channels. There are three main types of E-Commerce websites offering cosmetics products on the Chinese web:

VII

COSMETICS BRANDS' COMMUNICATION ONLINE

VII –Cosmetics brands’ communication online

China has the world’s largest number of web users: 632 million web users have been registered in June 2014, with a 14-million growth since January. Thus, IWOM (Internet Word of Mouth) is becoming increasingly influential in China: most of Chinese consumers now take the time to read appreciations, comments and opinion from other web users and take them into account before making a purchase decision. This is especially the case for cosmetics products. The Chinese web offers numerous interactive websites dedicated to the cosmetics universe, mainly targeting women, such as Meilishuo, Mogujie and 55bbs.

The biggest issue of E-Commerce is online reputation. All web users can write, publish and disseminate their appreciations, comments and opinion about a brand and its products or services, especially on Sina Weibo, one of the most influential social networks in China, and forums, extremely famous and used by a lot of Chinese web users. Many factors and tools are involved in the e-reputation of a brand, such as evaluations on some websites, presentations and criticisms on blogs, online press relations, online media, best-sellers lists.

SNS (Social Networking Services) play an important role in e-reputation control. Nowadays, several websites and forums provide a lot of information and feedbacks from customers who have already tried a given product and want to share their experience. In this matter, Kimiss and Meilishuo are the two most popular websites.

1 - Kimiss



Kimiss is China’s largest online community for rating beauty and cosmetics products. Founded in 2007, Kimiss allows web users to share their own tips and expertise about make-up and cosmetics products. The website now hosts nearly 1 million user reviews of over 140,000 beauty and cosmetics products from more than 2,500 different brands. “Beauty products? Check Kimiss before you buy” has become mandatory pre-purchase homework for more and more women across China who trust the kimiss community and their advice and tips. The figures related to Kimiss are impressive:

- Daily Page Views: >15,000,000
- Daily Unique Users: >1,000,000
- Registered Members: 3,000,000

Kimiss also offers advertising services for cosmetics brands:

- Product Promotion: As the website provides a multitude of information and reviews about beauty products, Kimiss has become a leader for beauty and cosmetics products promotion.

►Reputation Control: Kimiss offers trials, articles, recommendations, rankings and many other services to improve and control brands' reputation.

Kimiss' ranking list of cosmetics brands is as follows:

| Brands |
|---------------------|
| 1–Mamonde |
| 2–Olay |
| 3–Chando |
| 4–Clinique |
| 5–Innisfree |
| 6 - For beloved one |

The ranking list has been elaborated from the number of fans who have commented, supported or seen each brand. This list does not take into account the quality of products or the position of brands on China's cosmetics market, but shows brands' notoriety, especially among women.

Mamonde



Mamonde is a Korean brand founded in 1991 which first appeared on China's market in 2005. Mamonde sells mid-range products targeting women from 20 to 40 years old. The main characteristic of its products is the presence of essence extracted from flowers. Besides, the brand often calls upon popular Korean stars who benefit from a lot of female fans in China.

Olay



Olay is the biggest cosmetics brand of the American group P&G on China's market. The brand entered into China very early, in 1989. Olay is now a mature brand on China's market, enjoying a good reputation and brand image. The brand often expands its product lines to reach more targets and currently develops a range of products dedicated to men.

Chando



Chando is a local brand which has been created in 2001. The brand only uses natural ingredients. China's second- and third-tier cities represent the main part of Chando's business, targeting 20 to 45 year-old women with a medium purchasing power.

Clinique



Clinique, owned by the American group Estée Lauder, was founded in 1968. In China, this high-end brand's products are distributed in big shopping malls, Sephora and on the

Internet through E-Commerce platforms.



Innisfree

Innisfree is a Korean brand which broke into China's market two years ago. Despite a very recent presence in China, Innisfree is now very well-developed in the country. The brand offers products made up of natural ingredients and especially targets young and fashion women. Indeed, in recent years, Korean culture has deeply influenced Chinese people, especially young women. Innisfree has decided to take advantage of the success of Korean pop stars and has also developed fresh, colorful and attractive packaging.



For Beloved One



For Beloved One is a Taiwanese brand founded in 2004. The brand is especially famous for its cosmeceutical products and its wide range of whitening products, highly appreciated by Chinese women. The main ways of promotion used by For beloved one are IWOM (Internet Word of Mouth) and KOL (Key Opinion Leaders). Indeed, the brand has called upon many Taiwanese stars who are famous in China and asked them to promote its products on the Chinese web and Chinese social media.

These six brands are very different from each other. This shows that Kimiss is a platform referencing all kinds of cosmetics brands.

2 - Meilishuo



Meilishuo (which means "Beauty Talk/Conversation on Beauty") is the most famous and influential website specialized in fashion, beauty and cosmetics for young Chinese women. The website, created in 2009, looks like a kind of shopping guide, aiming at helping Chinese women find clothes, bags, shoes, accessories, beauty and cosmetics products. Web users have the possibility of sharing their opinion and recommending some brands and products. They can also look for experts, shops, group buying and share online shopping links and information about their favorite brands and products. Meilishuo aims at providing a real shopping experience for customers: when web users are surfing on the website, this has to

be like walking across a shopping mall. The website has become one of the main sources of IWOM regarding the cosmetics industry.

Meilishuo targets 20 to 35 year-old white-collar and semi white-collar women who have the leading spending power in China. Around 35% of Meilishuo's users are located in China's key cities such as Beijing, Shanghai, Guangzhou and Shenzhen.



Meilishuo's ranking list of cosmetics brands is as follows:

| |
|------------------------|
| Make-up |
| 1–L'Oréal |
| 2–Lancôme |
| 3–Maybelline |
| 4–Bobbi Brown |
| 5–Benefit |
| Skincare |
| 1 –Estée Lauder |
| 2 –Clinique |
| 3 – La mer |
| 4 –SK-II |
| 5 – Orbis |
| 6 – Kiehl's |
| 7 – DHC |
| 8 – Innisfree |
| 9 – Clarins |
| 10 – HR |
| 11 – Freeplus |
| 12 – Sisley |

La mer



La mer is a luxury cosmetics brand owned by Estée Lauder. On China's market, La mer's products are only for sale in big shopping malls of China's key cities and on its official e-commerce website, targeting women with high purchasing power.

SK-II



SK-II is a Japanese brand which has been present on China's market since 1998. This high-end brand is famous for its "immortal facial lotion". Women with high purchasing power are its core target clientele.



Orbis

Orbis is another Japanese brand targeting young women (20 to 30 years old). This brand is not so famous in China but is still on Meilishuo's list.

Kiehl's

This American brand appeared in China in 2009 and has become famous among young people for its medical and herbal ingredients. Now, an important part of the brand's products are sold online as young people are the main buyers on e-commerce websites.



DHC

DHC is a Japanese mid-range market brand which offers both skincare and makeup products on China's cosmetics market.



日本原装进口化妆品

Freeplus

Freeplus is a Japanese brand famous for the mildness and natural of its products, adapted to sensitive skins and preventing skin irritation.



The brands present on Meilishuo's ranking lists are mainly middle and high-end brands. While Kimiss especially targets young women, Meilishuo's core target is businesswomen with high purchasing power, living in China's key cities.

3 – Sina Weibo

Microblogging (or "Weibo" in Mandarin), has become very famous on the Chinese web. Sina Weibo is now one of the most popular SNS platforms in China. Chinese people use Sina Weibo at anytime and anywhere. Today, China registers more than 300 million microblogging users. More than 130,000 companies have opened their own account on Sina Weibo. This number is impressive. However, companies' accounts are often not managed well; they tend to neglect the potential of their account. And yet, a well-managed Weibo account can be very useful and effective to reach one's target and build up a fan community around one's brand, as Sina Weibo is highly used and influential.

Sina Weibo' ranking list of cosmetics brands (January 2014)

| Brands | Number of | Number of | Quality of Posts | Interaction |
|--------|-----------|-----------|------------------|-------------|
|--------|-----------|-----------|------------------|-------------|

| | Fans | Posts | | with Fans |
|-----------------------|----------------|-------------|------|-----------|
| Avène | 3108986 | 4971 | ★★★★ | ★★★★ |
| Olay | 1653025 | 6234 | ★★★ | ★★★ |
| L'Oréal | 1051417 | 8170 | ★★★ | ★★ |
| Innisfree | 660910 | 4742 | ★★ | ★★★ |
| Herborist | 623672 | 7517 | ★★★ | ★ |
| Chinaskin | 515748 | 1528 | ★★ | ★★★★ |
| Shiseido | 430758 | 4882 | ★★★ | ★ |
| Laneige | 423672 | 6145 | ★★★ | ★ |
| Inoherb | 405033 | 6251 | ★★★ | ★ |
| Clarins | 374925 | 6618 | ★★★ | ★ |
| La Roche-Posay | 324267 | 4345 | ★★ | ★ |
| Vichy | 313576 | 3582 | ★★★ | ★ |
| Biotherm | 309442 | 5282 | ★★★ | |
| SK-II | 308146 | 4810 | ★★★★ | ★★★★ |
| Estée Lauder | 299379 | 3497 | ★★ | ★★ |
| Lancôme | 298303 | 5149 | ★★★ | ★ |

“Quality of posts” is judged on the nature and scope of content (professional and useful information, number of sharing by KOL, degree of dissemination).

“Interaction with fans” depends on the number and quality of comments written by fans and the number of replies provided by brands to their fans’ comments.

Avène is the most famous brand on Sina Weibo, benefiting from the biggest fan community. We can notice that the number of fans and posts is not directly connected with the brand awareness and notoriety. For example, Chinaskin is ranked sixth on the list while the brand is not very famous in China. The number of fans is not always representative: the part of fake fans among the whole fan community can be important. Thus, some brands can have a lot of fans on Sina Weibo while having a bad reputation or poor notoriety on China’s market.

French brands are dominating the ranking list. Korean brands have posted a rapid growth and development on China’s cosmetics market in recent years. French and American brands usually target middle-aged Chinese consumers with high purchasing power, while Korean brands mainly target young women, calling upon Korean stars, using colorful packaging and offering low prices.

In addition to these social network platforms, some other platforms specialized in cosmetics directly influence cosmetics brands’ e-reputation.

4 - Jumei Reputation

Jumei Reputation is part of Jumei.com. The principle of the website is as follows: mention some assets and reward five cosmetics brands for each asset mentioned, in the form of a ranking. This creates opportunities for brands to be referenced according to their assets and competitive advantage and reach their specific target more easily.

Here is an illustration:

| Titles | Brands among the Top 5 |
|---|--|
| The best luxury brands | La Prairie, Dior, Giorgio Armani, Givenchy, Sisley |
| The most colorful products for Spring and Summer | MAC, Anna Sui, Max Factor, Maybelline, Benefit |
| The best local brands | Herborist, Pechoin, Inoherb, Afu, Premium Care |
| The most fashionable Japanese and Korean brands | Kose, The Face Shop, SK-II, Fancl, Opera |
| The best cosmeceutical brands | Avène, La Roche-Posay, Freeplus, Vichy, Nuxe |

This kind of ranking is very attractive. It is created and updated by the website itself, and the selected criteria that brands must meet to appear on the ranking lists are chosen by Jumei itself: thus, the ranking lists are very subjective, but Chinese consumers' trust Jumei due to its influence and reputation on the Chinese web for the cosmetics industry.

5 - Rayli

Rayli is the most famous women's and fashion magazine in China. With the growing influence of the Internet, Rayli has been paying more attention to its website and online magazines. Rayli's website also provides some ranking lists. These lists are not about the brands themselves but about their products. They are updated on a regular basis (every week).

One of Rayli's ranking lists (March 2014): the most desired beauty and cosmetics products of the week

| |
|--------------------------------|
| 1 – Olay CC Cream |
| 2 - Lux Hair Mask |
| 3 - Proya Whitening Cream |
| 4 - Proya MoisturizingLotion |
| 5 - Aupres Premium Essence |
| 6 - Aquair Shampoo |
| 7 - Pantene Shampoo |
| 8 - L'Oréal Youth Code Essence |
| 9 - Rejoice Proseries Shampoo |
| 10 - Estée Lauder Eye Cream |

Although products are more concerned than brands on this ranking list, the list directly influences the brands' reputation and notoriety. For example, Proya appears twice on the list; this inevitably catches the attention of web users and directly increases Proya's notoriety. This must also be the case for Olay as one of its products appears on the top of the list.

Another Rayli's ranking list (March 2014): the beauty and cosmetics products we talk about the most on the Internet this week

| |
|------------------------------------|
| 1 - SK-II Facial Treatment Essence |
| 2 - Sisley Eye Cream |
| 3 - L'Oréal Aqua Essence |
| 4 - Clarins Bi-Phase |
| 5 - Ponds Seaweed Cleaning Cream |
| 6 - Estée Lauder Night Repair |
| 7 - Clinique N 2 Lotion |
| 8 - Ponds Ice Cleaning Cream |
| 9 - Kiehl's Ultra Facial Cream |
| 10 - Estée Lauder Energy Lotion |

The products ranked on this list are higher-end than those in the previous list: most of them are from luxury and high-end brands such as SK-II, Sisley, Clarins, Estée Lauder and Clinique. However, we can notice two kinds of Ponds' cleaning cream, which is a public and mid-class brand. This must have a positive impact on Ponds: web users are likely to consider the brand as good as the other brands on the list, offering products of equivalent quality but at a lower price.

6 - Pclady

6 - PC Lady

Pclady is a website dedicated to women and specialized in fashion, beauty, news and lifestyle. Pclady also offers ranking lists of cosmetics products which are based on products rather than brands themselves.

The different ranking lists depend on products' functions: we can find a ranking list for skincare products, make-up, perfumes, hair care products, body care products, nail polish and many others.

Here is an example of Pclady's ranking lists for skincare products:

| | |
|--|---------|
| 1 - Vanessa Flora Anti-freckle Essence | Pl: 9.3 |
| 2 - Guerlain Abeille Royale | pl: 9.3 |
| 3 - OSM Ex White Essence | pl: 9.2 |
| 4 - SK-II Repair Essence | pl: 9.0 |
| 5 - La mer Repair Eye Essence | pl: 9.0 |
| 6 - La mer Lift Eye Cream | pl:9.0 |
| 7 - Olay Eye Roller | pl: 8.9 |
| 8 -Neutrogena White Sun Cream | pl: 8.9 |
| 9 - Lancôme Eye Essence | pl: 8.9 |
| 10 - Olay Micro-sculpting Cream | pl: 8.9 |

The main difference between Pclady's ranking lists and other websites' ones is that there is a score for each product, the pl index, depending on several factors such as the experts' evaluation, the user's experience and the number of fans.

"Vanessa Flora Anti-freckle Essence", ranked first on the list, is almost unknown. The brand "Vanessa Flora" is a high-end Chinese brand. Being ranked first on one of Pclady's ranking lists is very effective for Vanessa Flora: this catches the attention of the public and makes the brand known. Pclady is very influential and powerful and should be included in brands' Press Relations operations.

7 - Baidu Search Ranking

Baidu is the leader of China's search engine market, occupying almost 80% of the market. Thus, Baidu Search Ranking plays an important role in brand awareness, notoriety and reputation in China. Baidu Search Ranking is daily updated, directly linked to the number of search on Baidu.

Here is an example of Baidu Search Ranking on 2014-3-13 for the cosmetics universe:

| |
|------------------|
| 1 – Chanel |
| 2 – Watson |
| 3 - Estée Lauder |
| 4 – Sephora |
| 5 - Kiehl's |
| 6 – Laneige |
| 7 – Lancôme |
| 8 – Clinique |
| 9 – Innisfree |
| 10 – Choiskycn |
| 11 - L'Oréal |
| 12 – Clarins |
| 13 - Mary Kay |
| 14 – Dior |
| 15 – Avène |
| 16 – Biotherm |
| 17 – DHC |
| 18 – Herborist |
| 19 – Shiseido |
| 20 – Fancl |

Watson and Sephora are the two most popular cosmetics shops in China. They are both distributing their own brand as well as other popular brands. Sephora is higher end, selling luxury and high-class brands such as Lancôme, Dior, Chanel and Sisley, while Watson distributes mid-range brands such as Avène, Vichy and Nivea.

This ranking list is highly representative of the cosmetics brands' notoriety as it comes from the search engine Chinese people use the most for their search on the Internet. The number of search for one brand is directly linked to its notoriety. This list must be the most objective of all the ranking lists we can find on the Chinese web.

VIII

KEY SUCCESS FACTORS FOR COSMETICS BRANDS

VIII - Key success factors for cosmetics brands

1 - Branding on the Internet

Nowadays, Internet plays an important role as Chinese people use it on a daily basis. Branding on the Internet is therefore very important and highly efficient, and digital Marketing is booming in China. For example, the French brand Clarins, which has created a subsidiary in Shanghai in 2011, has been focusing its efforts on Digital Marketing operations for its development in China.

2 - Online Press Relations

Clarins' online Press Relations operations have been very effective to make itself know by Chinese consumers. The website Yoka, specialized in women's fashion, has a page dedicated to Clarins. The editors regularly post some articles about Clarins (for example, introduction of the brand, presentation of its products). In these articles, Yoka adds some technical evaluations to make them more professional and official, so that Clarins can gain the web users' trust.

Well-managed Press Relations operations can directly influence the success of a brand development. The Chinese web offers a lot of professional websites providing a multitude of information about cosmetics as well as online women's magazines which are highly consulted and famous among Chinese women.

3 - Social Media

Clarins has developed and conducted Social Media Marketing and Community Management strategies on the Chinese web and especially on Sina Weibo.

Sina Weibo is China's first and most popular social network. Clarins has created its own official page on Sina Weibo. Now, the page has more than 374,590 fans, and more than 6,618 items have been posted on Clarins' page since its creation.

Content posted on Clarins' Sina Weibo page is for example small stories about the foundation and development of Clarins, videos, photos, care advice and tips, announcements of promotions and activities. The Community Managers in charge of Clarins' promotion on Sina Weibo directly communicate with web users, especially by answering web users' questions about Clarins products. Topics benefiting from the largest number of comments and replies from fans are often about discounts. For example, in January, Clarins posted the following question: "Which skin problem do you want to solve for the New Year 2014? By answering this question, you may have the chance to receive a gift from Clarins!" This post registered 686 replies and was shared 1,201 times.

Sina Weibo is an excellent tool as well as a cheap way to reach one's target and potential customers due to a huge number of users. However, communication on Weibo is not easy

and must be well-managed to be really efficient. For this, Community Managers must post some useful, interesting and attractive content instead of advertising. Clarins' success on Sina Weibo is due to a regular interaction with its community of fans.

WeChat, an instant messaging mobile application, is also one of the most famous social networking platforms in China. Initially used to communicate with friends, WeChat has recently opened its doors to brands, allowing them to promote themselves on the platform. As WeChat is mainly used via mobile, brands' content is more likely to be seen. Clarins has also its own official WeChat account, on which the brand posts and shares content such as information, care tips, activities and stories. Clarins offers advantages exclusively dedicated to its WeChat fans such as discounts and gifts; and Clarins' fans have the privilege of being the first informed about discounts, promotions and Clarins' activities. The Community Managers in charge of Clarins' WeChat promotion focus their efforts on interaction and reactivity: they instantly answer users' questions.

4 - IWOM (Internet World of Mouth)

Internet has become a key source of information. Chinese consumers got into the habit of consulting and checking appreciations, reviews, opinion and comments posted by web users' about brands and products before any purchasing decision. IWOM is therefore very important for one's brand's reputation.

KOL (Key Opinion Leaders) are very influential on the Chinese web. They guide web users in their purchasing choice. In the cosmetics industry, professional cosmetic bloggers, who regularly post some videos to present make-up techniques or the cosmetics products they like to use, are highly influential and followed by a huge number of female fans. Calling upon an ambassador can also be very effective to build up one's brand's reputation, especially when it comes to big stars. The notoriety of stars can have a direct impact on a brand image.

5 -E-Commerce

Online sales represent 25% of the whole cosmetics sales volume. Chinese consumers are more and more numerous to buy their cosmetics products on websites such as Taobao, Tmall, Amazon or Jingdong, which are selling all kinds of products, or Jumei and Lefeng, specialized in cosmetics. These websites regularly offer a lot of discounts; that is why they are so successful and why online sales have become so popular for cosmetics in China.

6 – Cosmetics exhibitions and events in China

Some of the world's largest cosmetics exhibitions take place in china.



Every year in May takes place China Beauty Expo in Shanghai, considered to be one of the world's largest cosmetics exhibitions, and divided into three exhibition spaces: Cosmetics China, dedicated to cosmetics products, skin care products and perfumes, Cosmetech Shanghai, dedicated to equipment, packaging and ingredients, and Beauty Shanghai, dedicated to professionals and spa products.

In 2013, **Shanghai New International Expo Center**, offering 120,000 m² of exhibition space, welcomed 1,657 exhibitors from 22 countries and regions and from 34 Chinese provinces and municipalities, 257 exhibitors from overseas countries and 245,200 professional visitors. Shanghai China Beauty Expo represents one of the most powerful exchange platforms for cosmetics brands from all over the world, aiming at penetrating Asia's growing market. Shanghai China Beauty Expo, supported by China's Commerce Minister, is undoubtedly an unmissable event. The exhibition is a unique opportunity to know the new cosmetics trends. China Beauty Expo, which was originally reserved for professionals, is now both a B2B and B2C exhibition. Samples with discounts are offered for sale.

The year 2014 (19th edition of the exhibition) was characterized by the emergence of some new and ambitious Chinese brands, which have started their business as producers and then decided to create and launch their own brand. Their strategies are as follows: calling upon stars to promote their brand, invest, claim the "Made in China". These brands represent a new generation of Chinese cosmetics brands, following the model of Herborist, the Chinese premium brand owned by Jahwa Group, leader on China's cosmetics market. Chinese manufacturers seem to aim at moving upmarket.

Shanghai Beauty Expo is always very successful: every year, the exhibition space is overcrowded with visitors, and all the cosmetics players in China come out especially for the occasion, from hairstylists to directors of world-famous cosmetics brands. The exhibition also attracts a large number of media. Shanghai China Beauty Expo has confirmed its position as the leader on Asia's market.

ABOUT THE AUTHORS

Olivier VEROT

FOUNDER OF GENTLEMEN MARKETING AGENCY

Passionate about Marketing and China and graduated from a French business school, Olivier arrived in China in 2007. Creator of the professional blog Marketing-Chine.com, in which some analyses related to the Chinese market are published. After working in several cities in China, especially Dalian, Suzhou and Guangdong, within various industrial companies, as a Marketing and Development representative, Olivier has finally founded its own digital marketing company, **Gentlemen Marketing Agency**, specialized on the Chinese market, helping companies which want to use Internet to develop their sales and customers.



Viviane Zhu

Cosmetics Specialist

Passionate about France and Marketing, she studied in a French business school. She is specialist in Press/media relationship and content Marketing.

She has realized this survey based on knowledge of the market and data from Chinese users. Graduated from University of Grenoble (in France) with a master in communication, she can speak French, English and Chinese. Easy going, serious and open minded she get used to understand both Culture western VS China.



ABOUT OUR AGENCY

Born from a passion for web, marketing and China, founded by Olivier Verot and Philip Qian, Gentlemen Marketing Agency is a communication and digital marketing agency based in Shanghai, positioned and oriented “China”. With a team of marketing and referencing experts, Gentlemen Marketing Agency aims to help companies to improve their visibility and Ereputation on the Chinese web, and boost their performance.



OUR SERVICES



The services of China Marketing Agency revolve around several skills:

➤ NATURAL (SEO) AND PAID (PPC) REFERENCING ON BAIDU

Baidu has between 70 and 80% market share in China. This is a tool not to be overlooked if you want to increase your presence and visibility on the Chinese Internet. In addition, the rules on SEO on Baidu are special, complex and different from those that exist on Google.

We now know the means to appear in the first pages of Baidu and we will be delighted to put our knowledge to benefit your business.

Meanwhile, Baidu as Google offers paid links, Baidu Pay Per Click. We also have expertise in the management of PPC campaigns.

➤ COMMUNITY MANAGEMENT ON CHINESE SOCIAL NETWORKS

Due to censorship by the Chinese government, the Internet as we know it in the West is totally different. Indeed, Facebook, Twitter and YouTube are inaccessible for example. We must therefore focus on the most popular Chinese social networks. Within its networks found including microblogging platform Sina Weibo, which with 500 million registered users is a leader figure. This is only available in Chinese.

In our agency we propose the creation of formal verification and the design of a business account, but also the recruitment of a community and the animation of it.

➤ **GENERATING BUZZ MARKETING: VIRAL MARKETING OPERATIONS**

Nowadays, marketing “traditional” is losing speed. In China, it is important to offer innovative and interactive things in terms of communication to reach the potential of 564 million Chinese netizens.

Viral marketing or buzz marketing filled this role well. It is through various operations to generate interest in the brand by interacting with consumers. Our methodology is based on five points:

- 1 - Support to set your goals
- 2 - Definition of a viral marketing strategy
- 3 - Implementation of buzz as videos, photos and application
- 4 - Dissemination of buzz
- 5 - Establishing metrics

➤ **PRESS RELATIONS**

To promote a brand or a product it is always useful for a company to use Press Relations. Our agency offers mainly Online PR (Press Relations) services, as online news portals are the most influential in the country.

Our methodology:

- 1 - Establishment of the position and angle of attack
- 2 - Writing press releases in Mandarin
- 3 - Dissemination targeted at journalists
- 4 - Monitoring of operations

➤ **EREPUTATION**

Negative comments, misinformation and scandals are many on the Chinese Internet. A brand can find a bad buzz.

It is therefore necessary to respond appropriately through a campaign of e-reputation. We are committed to providing our know-how to hide the negative comments and in return offer many articles and testimonials praising your brand or your product.

OUR COMMITMENT

Based on years of experience in cosmetics and beauty products in China, Gentlemen Marketing Agency understands problems and opportunities of Brands in Chinese Market.

Thanks to our expertise in the Chinese web marketing, Search Engine Optimization, social Media, online press world or Chinese forums, ecommerce integration, and viral Marketing, we can offer a full range of services for beauty brands for enter into the Chinese Market.

We are committed to provide a quality and professional service, and want to be a partner for our customers rather than a simple supplier.

We aim to become the champions of online marketing in China. To achieve this, we inform ourselves about the recent changes in terms of platforms use or updating. We frequently realize some tests to continuously improve our services' performance. Passionate about Digital & Marketing, we spend time on learning, understanding, feeling and guessing search engines' algorithm, customers' way of surfing, aiming to reach our objective as passionate professionals.

We are committed to train our teams of Marketer, copy writers, Search Engine optimizers, Press Relations experts, ecommerce specialists, Community Managers and engineers as often as possible, in order to provide the best quality services possible to our customers.



GENTLEMENMARKETINGAGENCY DIGITAL EXPERTS IN CHINA!

If you want to know more about China's cosmetics market and plan to develop your company in China, do not hesitate to contact us at the following email address: agency@marketingtochina.com or call us at (+86)- 21-623 105 20. We will be pleased to work with you and let your company benefit from our marketing expertise in China.

Find more information about our agency on our website: agency.marketingtochina.com

and find our case study cosmeticschinaagency.com

Thank you for your reading and see you soon at Gentlemen Marketing Agency!

