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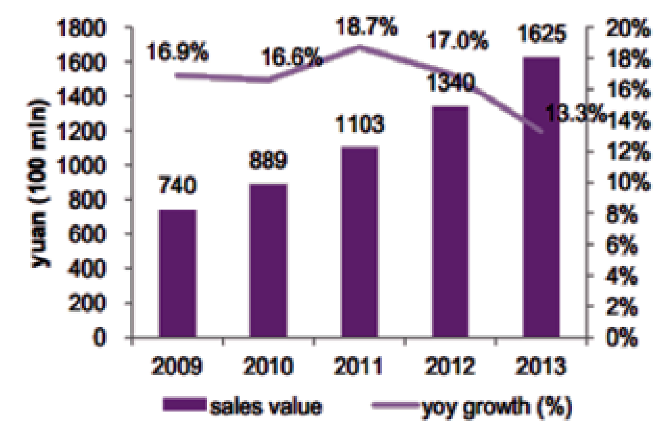
Market Overview

In the recent years, the Mainland Chinese cosmetics sector has been expanding at a rapid rate mirroring the huge economic growth experienced by the world's largest marketplace. The total sales volume of cosmetic products reached almost 163 billion yuan (USD26.5 billion) in 2013. This translated into an annual sales growth of roughly 13% versus 2013, and while formidable, this was actually down from a 17% YOY growth in 2012.

Exhibit 1: Retail value of cosmetics by wholesale and retail enterprises above designated size*: 2009-2013



Source: National Bureau of Statistics of China

*Designated size: With annual sales of 5 million yuan or above and with an employment of or over 60

Market Competition

When looking at the whole Chinese cosmetics market, research shows that domestic players only account for 20% while foreign-invested enterprises and joint ventures makes up a huge 80%. But despite this, we see that domestics have been rapidly developing and positioning themselves as serious competitors, which has ultimately affected the sales performance of their foreign counterparts.

With the departure of L'Oreal's Garnier brand and Revlon from the country in 2013, the general consensus is that Western cosmetics brands should proceed with caution. And while there has been some speculation that these will eventually disappear from the market completely, the reality is that this is highly unlikely. Nevertheless, the Garnier and Revlon case studies show that Western brands need to be more innovated in the Chinese market and adapt to local trends such as the increasing reliance on e-commerce strategies.

"Brands exiting from China has nothing to do with lack of market growth, but rather their failure to beat the competition in making their brands relevant to the notoriously fickle local consumers."

Said Matthew Crabbe,
Director of Research at
Asia-Mintel Pacific

We also see that there is increasing competition from other Asian countries as well. South Korea is leading the charge with brands such as Sulwhasoo, Missha and AmorePacific. And local grown brands such as Houdy, Caisy, Longrich, CMM, Herborist and Chinfie are becoming more prominent. The result is that the regional cosmetics brands are starting to "pose a long-term threat" to Western ones, and ultimately stealing some of the profits which they once enjoyed.

Shanghai Jahwa United Company, Limited has been particularly successful in promoting domestic brands with 10 such cosmetic brands in the market. They are also looking to expand their presence locally as well as internationally by also acquiring foreign brands. And AmorePacific, the South Korean brand increased its market share from 1.2 percent in 2007 to 2.6 percent in 2012. However, despite all this competition, some of the major global brands such as P&G, L'Oreal and Shiseido are still holding their own in China.

Consumer Behaviour

Over time, consumer behaviour has also evolved. Consumers are making more independent decisions. That means, they are being less influenced by advertisements and promotional campaigns. The decision making process is now more reliant on research-type methodology where consumers are gathering information from various channels to help them determine the best products for their needs.

Consumer groups are changing also. They are now generally grouped into three major tiers - upper, middle and lower - based upon their preference for the brand, price of the product and their own purchasing power. Buyers of imported cosmetics are mostly high-income earners in large and medium-sized cities. These are young and middle-aged ladies who prefer notable brand names from Europe, Japan and the US.

eCommerce

"Driven by new technology and innovative business models, the e-commerce industry has become one of the new engines for the economic development in China and helps Chinese companies explore the international market.", says Li Jinqi, Director of the bureau of e-Commerce at China's Ministry of Commerce.

This is exhibited by a total Chinese online retail sales in 2013 of USD296.5 billion, a 13% over US e-retail sales which was only USD262.5 billion (despite a 41% increase from 2012).

Fuelling this growth in sales was an actual increase in the number of Chinese consumers shopping online. According to a government report, there was a 24.7% increase from 2012 to 2013, 242 million to 302 million online shoppers. Another contributing factor was a 8.5% increase in Internet users to 618 million at the end of 2013. And mobile Internet users grew even faster, by 19% over the previous year, to 500 million - an increase of 80 million shoppers going online via mobile devices.

Benefiting from this is Alibaba, whose two major Chinese online portals, Taobao and Tmall, handled USD248 billion in the 2013 purchases (that's more than Amazon with USD116.4 billion and eBay with USD87 billion) combined, and in 2014 the group accounts for nearly 84% of the e-retail volume in China.

"Western companies must always stay attuned to local tastes and form relationships with their customers through social media."

Source:
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http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-cosmetics-market/ccm/en/1/1X000000/1X002L09.htm
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