

# Research on the Entity and Online Stores of Cosmetics in China

Jinming Zhang

*Doane Academy, Burlington, NJ, U.S, 08016*  
*Author's Email: jzhang@doaneacademy.org*

## ABSTRACT

Based on the influence of cosmetics online shopping, this paper reveals the problems that traditional retail stores have encountered and how to maintain the relationship between online stores and entity stores. The results show that problems in the operation ideas, costs and other aspects of cosmetics entity stores lead to the downturn of the market in recent years. As can be seen from the solutions proposed, in the cosmetics industry, online shopping and entity stores can achieve a harmonious development through cooperation.

**Keywords:** *Entity Store, Online Store, Cosmetics industry, China*

## 1. INTRODUCTION

Nowadays, online shopping brings an impact on entity stores. With the online market of cosmetics accounting for 70%, entity dealers need to change their marketing thinking and development direction. The problem for entity dealers is how to maintain the market share of entity stores and how to gain more active market rights. However, in the cosmetics industry, the traditional retail industry still has prospects for development. By analyzing the data and charts and starting from the most basic part of the retail store, this article provides solutions and predicts the future development direction for online stores and entity stores of cosmetics.

## 2. PROBLEMS OF ENTITY AND ONLINE STORE OF COSMETICS

### 2.1. Entity Stores

The sales market in China includes manufacturers, wholesalers, retailers, and customers. Every part is related to each other. For example, there are not many customers like retail stores, and retail stores cannot purchase goods directly from manufacturers. As a result,

the customer will eventually have to pay more for the product. Retailers also find it hard to cut prices. Meanwhile, the advantages of online stores have come out. Online stores do not pay rent and staff. It will save a lot of expenses and the price cut of the online store is acceptable for sellers. The same products will be 5-10% cheaper in online stores than in entity stores. This is a fatal blow to some small retailers. The reason is that when people gradually develop the habit of shopping online, they find that the prices on the Internet are much cheaper than those in retail stores, so they are more inclined to shop online. However, when the profit of small retailers falls to a certain point along with the price of the whole market, it is not enough to support the development of entity stores, which leads to the closure and employee resignation. According to Figure 1, it can be observed that from 2014 to 2018, the online cosmetics market in China continues to expand, from 53.4% of the market at the beginning to 74.2% in 2018. It shows the full vitality of the online shopping market in recent years as well as the closure of small retail stores. The total retail value of cosmetics in China (million YUAN) is on the left and the retail sale of the online consumer market (million YUAN) is on the right.

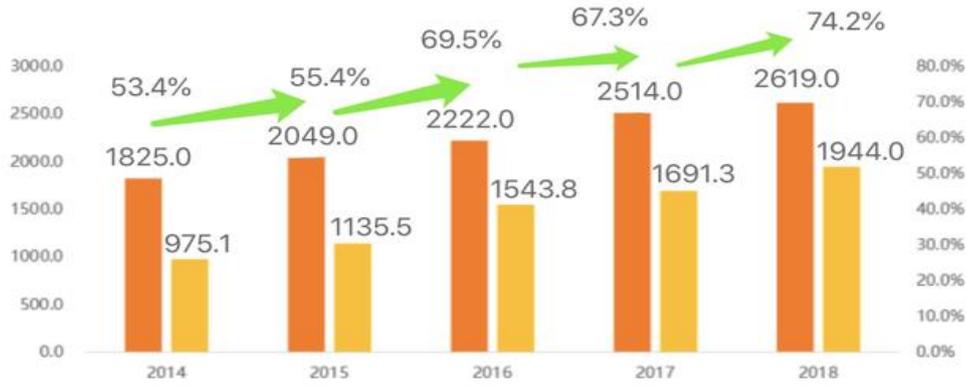


Figure 1. 2014-2018 China's cosmetics online shopping Market scale and penetration rate (unit: 100 million YUAN)[1]

## 2.2. Problems of Online Shopping

The convenience of online shopping is readily accepted, but it also brings problems. For example, After-sales service is not satisfactory, products are not in line with expectations, and a large number of fake and inferior goods exist. When online shopping began to develop, the problem of after-sales service has always existed. The drawback of buying before trying is that you often buy products that don't fit you, such as shoes and clothes. After that, it is difficult for people to exchange goods. Because the process is too complex, sending back the express and getting the replacement goods takes a long time. So in terms of after-sales service, the online shopping experience is far inferior to that of retail stores. Moreover, it is difficult to tell the authenticity of goods because what people are faced with when shopping are only the words and pictures of the merchants. As a result, a large number of people receive fake products every year. In this process, the consumer is the victim. If the amount involved is small, consumers will not pursue it too much. However, when the amount is large, it is difficult to know the true identity of the merchant due to the network. With the improvement of laws in recent years, these situations have been reduced but still exist.

## 3. THE REASON FOR CHOOSING ONLINE SHOPPING

### 3.1. The Development of Technology

With the time getting into the 21st, the development of technology and the internet has already changed our lives. Nowadays, we use the internet through computers and mobile devices such as smartphones and tablets. Thus, many new industries have sprung up, like online shopping, video games, social media and so on. Therefore, online shopping enters people's life through all sorts of mediums. In this process, consumption habits have changed, and the innovation and popularization of science and technology are the foundation of the rise of online shopping.

### 3.2. Much Cheaper, More Choice and More Convenient

The attraction of online shopping to people is also inseparable from social changes. In the past decade, new industries have been constantly impacting the Chinese market, and more and more people have become busy in their work and life. This is true in China's first and second tier cities, which are well-developed. As can be seen from figure 2 below, the three main reasons that people choose to shop online are lower prices, convenience and wide selection.

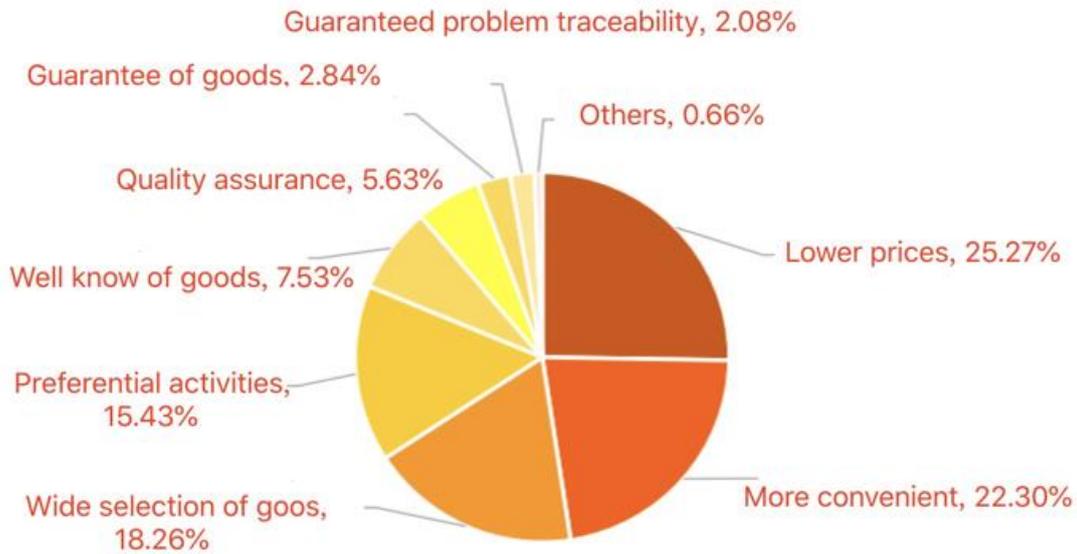


Figure 2. Reasons why Chinese people choose online shopping in the first half of 2019[1]

People can get to know a lot of products quickly in the process of shopping through the Internet, which saves a lot of time compared with going to the retail store. Moreover, there are a wide variety of products facing consumers, while the retail stores have the situation of incomplete products and single products. Price is also a factor influencing consumers' choice of online shopping. Because the capital of opening online stores is not as much as the cost of retail stores, online stores can cut prices. In addition, the subsidies and publicity efforts of the online platform resulted in different prices of the same goods in different stores.

#### 4. SUGGESTION FOR CHAIN STORES

##### 4.1. From One to Ten Stores

Traditional retail stores need to improve their facilities and services and seek partners in the process of development. In this process, the most important thing is to integrate the small and disorderly retail stores into a unified management chain retail store occupying a large number of markets. At the same time, it can be achieved through consultation and cooperation. Acquisition, join and other ways are also adopted within the scope. The purpose of this step is to reduce the price of the manufacturers by unifying the pricing, setting up activities to achieve the lowest price to unify the whole single market, that is, a city or a county. Once a chain of retail stores is formed, the benefits of unified management become apparent. Artificial training becomes convenient, and the price of goods no longer creates vicious competition between retail stores. The chain stores throughput also makes it possible to obtain products at lower prices.

##### 4.2. Cooperation

When these stores are spread throughout the city, retailers of entity stores can negotiate partnerships with online stores. At this point, entity stores can sell goods sold in online stores and provide high-quality after-sales and on-site experience services. Customers who order from online stores will also be able to pick up their goods at a retail store at a convenient time without waiting for many days for delivery[2]. Also, customers who don't know if the product is suitable for them can experience it in a retail store. Cooperation between the two would greatly reduce the cost of previous price wars, so as to get more profit. This will form a win-win situation, that is, no matter which channel the customer, will improve the customer adhesion. In addition, both parties play different roles in the cooperation process. The retail store is the reputation of the online store, while the online store is the advertiser of the entity store. By promoting their own or cooperative retail stores, they can expand the market of online stores and obtain a more stable source of customers.

##### 4.3. Chain Store: New Relationship between Employer and Employee

In the whole economic chain of cosmetics entity stores, the positioning and price of goods are important, but more important is the ability of sales personnel. The ability of sales staff is directly related to the sales volume of the store. So in this process, the training of personnel and the perspective of sales personnel is essential. Training on personnel is generally based on the corresponding manufacturers of trainers and depends on the corresponding goods to the store sales staff training. In this process, the sales staff's state of mind or

their cognition is important. People's passions can improve their efficiency[3]. However, Most sales people see their jobs boring. Therefore, in order to motivate employees to work actively, store operators need to give employees a direction to work hard. For example, employees with high sales have a chance to compete for the position of the store manager, while store managers with good performance have a chance to own a store with her limited shares. And they will become the owner of her store. In this way, it will greatly increase

the motivation of employees, thus giving excellent talents a chance to become cooperative bosses. However, the employers still own the majority of the shares, so they're still the largest holder of the interest. As can be seen from figure 3, managers with shares perform significantly better than those without shares. In this relationship, the interests of the employer and the manager will be maximized, and good managers will not change jobs easily.

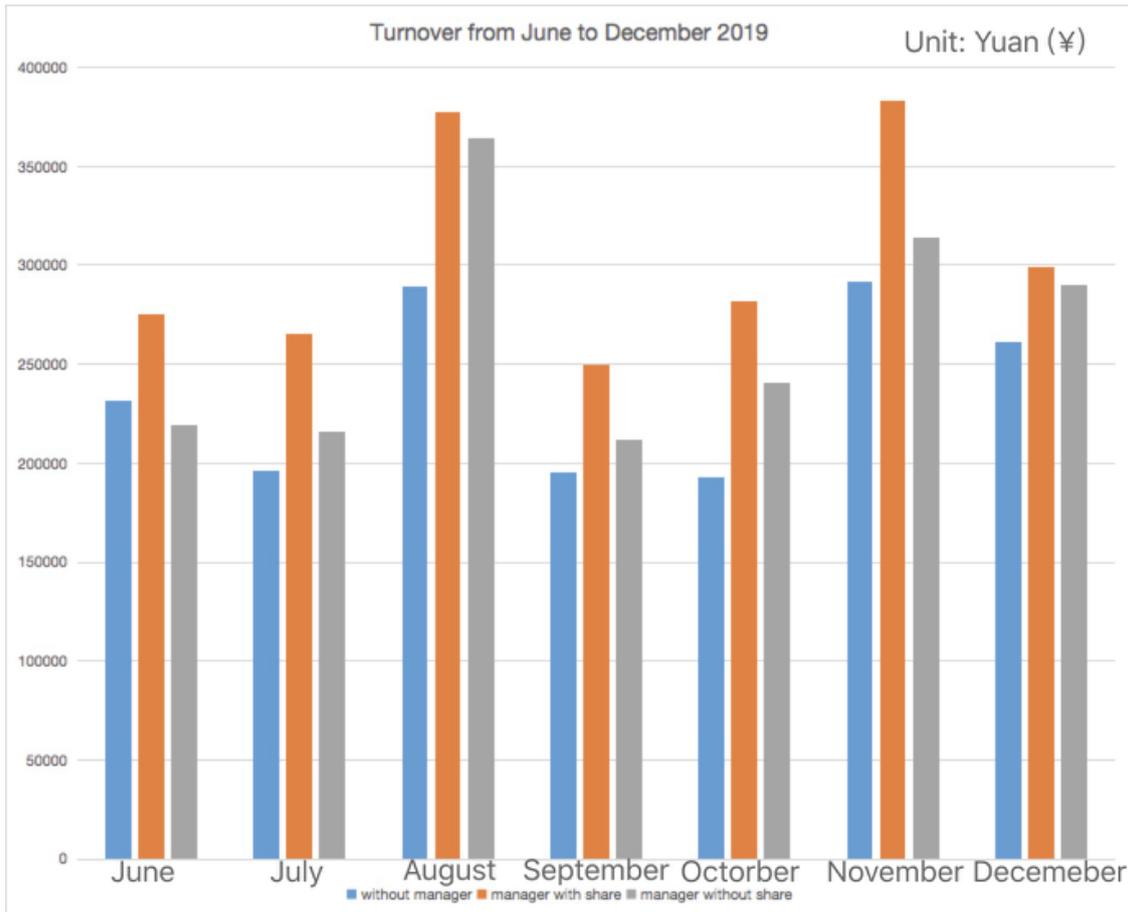


Figure 3. Turnover from June to December 2019. (Data and chart from YuZhixiu Cosmetic Chain Store)

## 5. GOOD EXAMPLES AND THE FUTURE OF COSMETICS IN CHINA

### 5.1. Sephora and Watsons

In the current situation, online and entity shopping patterns are not so clearly separated. Retailers offer a mix of services to customers both online and in retail stores. Customers can choose to shop online, pick up the goods at the retail store or try out goods at the retail store and then buy online. The Internet can collect customer information to target the shopping interests of people with different incomes in different regions. Entity stores can timely adjust the product and personnel service as well. In these respects, Sephora and Watsons are the paragons of cosmetics retail.

Sephora was founded in 1969 in Limoges, France. Sephora joined global luxury brand LVMH in 1997 and has 1,665 stores in 21 countries, offering a comprehensive selection of products in the store from skin care to perfume. There are well-known cosmetics select brands, as well as the latest market debut of new products such as micro bubble technology and exclusive SEPHORA brand products.[4]

A.S. Watson Group was founded in 1828 and is a health and beauty division of The Watsons Group of Hutchison Whampoa Limited. It operates more than 12,000 retail stores in 24 countries and employs 117,000 people. The group's products include health care products, beauty products, perfumes, cosmetics, daily

necessities, food, drinks, electronic products, wine and airport retail business.[5]

The decoration style of Sephora is simple and fashionable. The whole shop is decorated with black and white as the main color. Because most of Sephora's products are high-end brands, most of Sephora's retail stores are in upscale areas such as malls or commercial pedestrian malls. Sephora is mainly facing middle and high-end customer groups, a very small number of middle and low-end customer groups. However, the consumption habit of middle and high-end customers is to go to the high street and shopping malls, and a few people go to supermarkets like Walmart and Target. As a result, the middle and lower end of the customer base has been covered by supermarkets, and Sephora does not need to open stores in the community.

Sephora is successful for a large number of attractive high-end brands. Cosmetics, skin care products, perfumes and other products are international high-end or potential quality brands. This is the biggest attraction for consumers. People can buy the products they want to buy here to meet their own needs. However, there is a prerequisite for obtaining a large number of high-quality brand exhibits. Sephora has had a powerful patron since it joined LVMH, the global luxury-brand company in 1997. With THE support and popularity of LVMH, Sephora is able to have a variety of estimated brands and opens a number of stores around the world.

As a cosmetics retail store, the service is of paramount importance. Because the main difference between online sales and entity sales is that customers can experience the actual service. And that's a service that customers don't have access to on the Internet. The advantage of network sales is low cost and wide coverage. The advantages of retail stores are good service, product experience and after-sales support. Sephora provides customers with free beauty and makeup services, professional beauty consultants, and targeted beauty guidance and advice. The impact of these services on customers is profound. When customers experience excellent service, they will be full of expectations for consumption in retail stores. Also, a high-quality shopping experience will greatly improve the degree of customer's interest. Because Sephora has done all of these things, it has become one of the world's leading cosmetics retail brands.

### ***5.2. The Future of Cosmetics in China***

The booming Chinese market is unimaginable in just a few decades. And because of catching up with the Internet in the 21st century, this makes the Chinese market very dynamic. So in the past, there have been many people through entrepreneurship to build wealth. But cooperation should be taken into consideration. The importance of cooperation is greater than that of

individuals. In this "Natural selection" market, if businesses don't choose cooperation and change, it's likely to be defeated next. Selfish people cannot continue to develop. The cosmetics industry should make full use of its strength.

## **6. CONCLUSION**

This paper discusses the advantages and disadvantages of the cosmetics industry in online shopping and retail sales. It also focuses on the analysis that online shopping has occupied the vast majority of the cosmetics market in China in the past decade. Based on the research data, this paper puts forward some suggestions for online shopping and retail store operation. It is the best solution to jointly explore a new development path. The point of view and the practical operability of the suggestions in this paper is limited. Some of the suggestions may not be applicable to enterprises that have launched the dual-platform development strategy of retail stores and online shopping. Therefore, the adaptability of this paper is more inclined to people who are not clear about the future development of retail stores. And a part of the ideas for greater cooperation is provided for the online stores to grab the market opportunity.

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