

# Can Chinese Domestic Cosmetics Continue to Thrive?

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## ABSTRACT

The development of China's cosmetics industry has a long history. It can be traced back to the Xia Dynasty. Until now, with the expansion of the Cosmetics market in China and the development of e-commerce, it has created good conditions for the rise of domestic cosmetics. However, most of the top 10 brands are still international high-end cosmetics brands. This paper puts forward three ways to solve the present situation of domestic cosmetics. The first is to enhance the brand value. It can be built by the company itself or by cooperating with other brands to obtain more added value. The second is do not rely too much on key opinion leader, brand sales need to broaden sales channels. Third is companies focus on product differentiation and actively research and develop new products. The results of this study revealed that Chinese domestic cosmetics have gradually begun to compete with foreign high-end cosmetics, and have made certain achievements. However, due to the low-price positioning, original equipment manufacturing products, and excessive reliance on key opinion leader marketing, the development of Chinese domestic cosmetics is in a bottleneck period, and it is difficult to compete with foreign brands. This research suggests Chinese cosmetics enterprises uphold their advantages while building brand value and continuous independent innovation. This road is indeed difficult, but it is a long-term process to become a global cosmetics industry leader.

**Keywords:** Chinese cosmetics, Brand value, Innovation, Key opinion leader.

## 1. INTRODUCTION

### 1.1. Background

The development of China's cosmetics industry has a long history. In the Xia Dynasty, it is common to grind rice into a fine powder and then apply it to the face, to obtain tender, smooth, and white skin. In modern times, China's production technology is very backward, the production of cosmetics only exists in the workshop. After the Opium War, foreign beauty products began to enter China. In 1995, Maybelline entered the Chinese mainland, set up the first shop in Guangzhou. This is the true sense of cosmetics and the embryonic stage of Chinese cosmetics. In 2005, domestic cosmetics began to appear, but the polarization of cosmetics brands at home and abroad is very serious.

In recent years, with the continuous and substantial growth of China's economy, people's consumption level has been greatly improved. People's demand for cosmetics is growing, and capital has poured into the cosmetics industry leads to the continuous expansion of China's cosmetics market and the continuous improvement of cosmetic sales. By 2020, the retail sales

of cosmetics in China totalled 340 billion yuan, an increase of 9.5 percent compared with 2019. The cosmetics industry is recovering as the resumes work and production as the effects of COVID-19 gradually dissipate.

In the past ten years, the development of e-commerce has created good conditions for the rise of domestic cosmetics. In 2020, Winona, the only domestic cosmetics brand, entered the top ten of singles' day sales. The performance of domestic brands is also very eye-catching such as Perfect Diary and Florasis. However, most of the top 10 brands are still international high-end cosmetics brands.

### 1.2. Related research

With the continuous improvement of people's income, people's requirements for beauty have gradually increased, and many cosmetics brands have been born, which has attracted the attention of more and more scholars. Xie identified the domestic cosmetics development status. The market share of Chinese cosmetics only took up 20%. Foreign cosmetics play a leading role in China because of the brand segmentation

and functions diversification. Xie pointed out that China is at a disadvantage in the cosmetic market. Because the price positioning of Chinese domestic cosmetics is very negative, 80% of the profits are taken away by international cosmetics. This led to customers producing the cognitive bias that cheap goods are not good [1]. Meanwhile, Li reviewed that although Perfect Diary, Florasis, and other domestic brands have rushed to the forefront, it is very difficult to step into the ranks of international brands. In the short term, new domestic products can hardly compete with international brands in terms of brand value. Therefore, if domestic products want to rise in the future, they have to avoid confrontation with the international main brands and do the iteration speed faster than the big brands [2].

The rise of the domestic brand Perfect Diary is representative. He identified the rapid development of the Perfect Diary for three main reasons. The first is customers themselves. In recent years consumers of cosmetics products become younger and more divided, so domestic cosmetics have a chance to turn the table. The second is because of the rise of new media. It provides a marketing channel for Perfect Diary. The third reason is the company's competing strategy, such as collaborating with popular brands, using mass advertisement, and selling products to customers directly. Perfect Diary changed the past sales model and grew into an internet brand. It is the leading domestic cosmetic brand [3]. The development of Armani in China has inspired many domestic brands. Zhang analyzed the development status of the international brand Armani in China. Since the establishment of the first e-commerce website in 2013, the combination of online and offline consumption vigorously developed advertising and marketing, and quickly opened the market in China. Compared with many local cosmetics companies in China. They pay attention to innovating the publicity and promotion mode, improving the brand awareness, and bringing benefits to a certain extent. For example, Florasis needs to expand offline marketing to bring real, accurate, and effective market data to improve market share. Meanwhile, Florasis need to focus on different segments to produce different products. On the premise of ensuring quality, steadily improve market share [4]. Thus, domestic cosmetics enterprises need to formulate good marketing strategies. Sun made a comprehensive review of the brand marketing strategy of Chinese domestic cosmetics based on consumer behavior. Sun first gives some characteristics of consumer behavior: high differentiation, strong cyclical, strong substitutability, and high transmissibility. Cosmetic customers always like to take effective advertisement, brand functions, tide factors, and their inner satisfaction into consideration. Then Sun emphasizes that cosmetics is a product with a strong sense of experience so companies need to focus on efficiency promotion and service quality to gain more profits and expand the

influence among customers [5]. In addition, Chen identified companies need to focus on product innovation, product differentiation, product image, and product quality to make a marketing strategy for Chinese cosmetics [6].

Although the development of domestic cosmetics is better than in the past, it still has many challenges. Chen analyzed that insufficient investment in scientific research, lack of brand awareness, and legal system on cosmetics were proposed as the problems in the Chinese cosmetics industry. Chen also investigated empirically the factors influence of customer who buys Chinese cosmetics. The empirical investigation results demonstrated that promotions are in direct proportion to the number of purchases. But for some experts of cosmetic consumers, this group of people prefers to buy relatively high-priced cosmetics [6]. Wang believes that the following views are worth referring to domestic cosmetics need to focus their quality first and form a reputation and loyalty among consumers. Then Chinese manufactures adhere to herbal and Chinese medicine skincare to achieve consumers' pursuit of health and effect [7]. However, Wu and Guo reviewed the development of Chinese cosmetics history, they identified that imitation is an inevitable stage of beauty products. The prosperity of cosmetics in Europe and the United States has gone through a long time of precipitation. If domestic products want to accelerate beyond, they can only start from imitation. For the future of Chinese cosmetics, Domestic brands need to innovate and establish brand value to narrow the gap with foreign brands [8]. Dong found that the Perfect Diary made good use of social media in the process of its rise. However, in its first financial statement since its listing, it describes the phenomenon that the more marketing, the higher operating income, and the greater loss. Therefore, Dong believes that there are some problems with the direct to customer (DTC) model adopted by Perfect Diary. The DTC model is based on products rather than marketing. Unlike other foreign brands that use the original brand manufacturing (OBM) model, most domestic brands use the original equipment manufacturing (OEM) model. Therefore, Dong pointed out that if domestic brands want to have good market prospects, they must establish product R&D [9]. Wu and Dong's views are the same. Wu proposed a new model called "C-PRO-B" that can achieve the ability of integrated operation and organization. Consumer-pay attention to the real needs of consumers. Product-make goods visible, palpable and transferable. Resource-commercialize content. Operation-users who implement multiple conversions can maximize the value. Branding-user participation in brand co-creation, strengthening brand positioning, stimulating resonance, brand personalization, and visual immersion are the core of branding. Emerging brands rely on Tiktok, tmall, and users to extend their lead and the goal of sustained growth can only be achieved

through continuous efforts and innovation towards the brand [10].

This study will start from PEST analysis to discuss the external environment of domestic cosmetics. Then determine the problems of domestic cosmetics and find out why China, which has had huge consumer demand and history of skincare products for thousands of years, cannot find such big brands as Estee Lauder and L'Oreal. Finally, some solutions are proposed for relevant enterprises, hoping that domestic cosmetics can shine on the international stage in the future.

## 2. PEST ANALYSIS

### 2.1. Political factors

In the past, part of China's export cosmetics encountered returns and detention. This is because there is no regulation in China's cosmetics laws on the use of certain ingredients, such as phthalates, which are banned in foreign countries. After all, they can harm the fetus. At present, China has revised its laws on cosmetics several times and has strict standards. China also attaches great importance to the label of cosmetics. The Ministry of Health of the People's Republic of China introduced the "Cosmetics Label Identification Management Standards". It listed the new standards of "false exaggerated terms" such as special effects, super, quick effect were not allowed to use. In contrast, foreign cosmetics law is more strict and complete, label content also has different requirements, export cosmetics should be marked following the provisions of the corresponding countries, to avoid product export obstruction. The healthy development of the cosmetics industry has been promoted and the health and safety of consumers have been protected. Cosmetics companies should seek truth from facts to do a good job of products, to seek long-term development.

### 2.2. Economic factors

As shown in Figure 1 and Figure 2, in recent years, domestic high-end cosmetics brands are still occupied by foreign brands, such as Estee Lauder and L'Oreal. Although domestic cosmetics companies occupy a certain share in the mass cosmetic market, foreign companies still pose a threat to local brands.

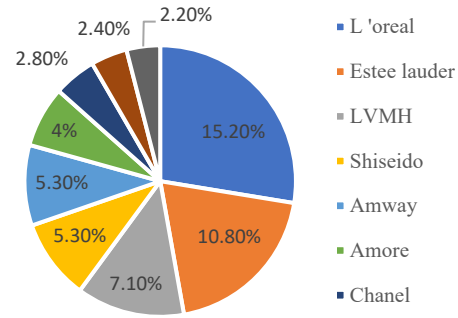


Figure 1. China's market share of high-end cosmetics in 2019.

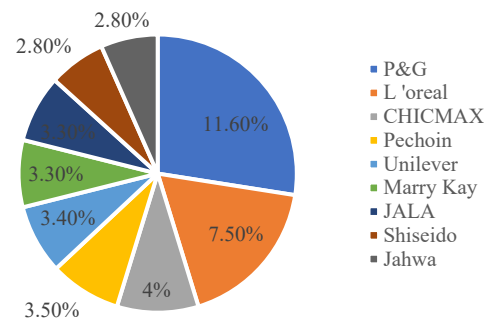
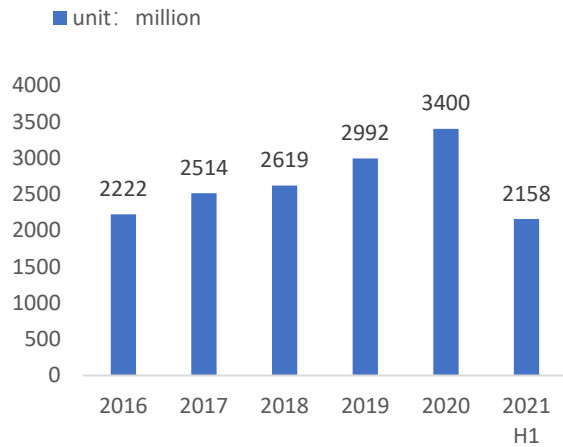


Figure 2. China's market share of mass cosmetics in 2019.

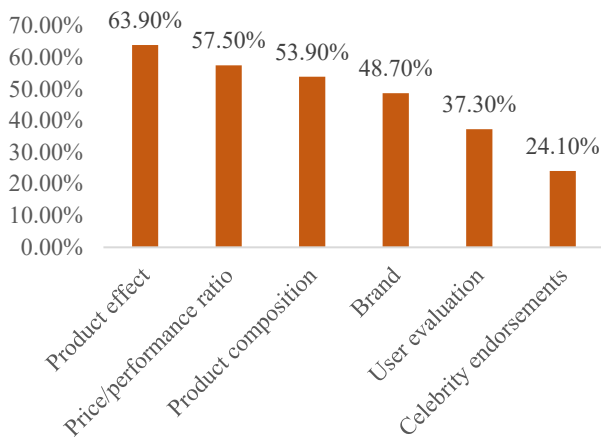
China's cosmetics market is growing fast (Figure 3). The total retail sales of cosmetics in China have been on the rise for the past five years. From 222.2 billion yuan in 2016 to 340 billion yuan in 2020, with a compound annual growth rate of 11.22%. From January to July 2021, China's retail sales of beauty products reached 215.8 billion yuan. China's cosmetics market has become the second-largest after the United States. As the Chinese government effectively controls the epidemic, the e-commerce economy continues to improve and the economy continues to recover steadily. It is expected that the retail sales of cosmetics in China will continue to grow.



**Figure 3.** Total retail sales of Cosmetics in China from 2016 to July 2021

### 2.3. Sociocultural factors

The change of social life promotes the rapid development of the beauty makeup industry. China's population status is characterized by a large population, rapid growth of population, low quality of population, and accelerated aging of the population. The large population has laid the foundation for the cosmetics industry. Consumers are getting younger because of rich family conditions. They are not only pursuing beauty, but also the quality of cosmetics and more professional cosmetics products. The data shows that 63.9% and 53.9% of consumers consider product effect and product composition as their first and third considerations when buying cosmetics (Figure 4).



**Figure 4** Considerations for Chinese consumers to buy cosmetics in 2021

In addition, the boom of the "she economy" made women benefit from cosmetics. "He economy" is gradually becoming accepted by people. A growing number of men prefer to buy cosmetics such as eyebrow pencils, foundations, and light lipstick to make them look more handsome. Therefore, the cosmetics industry is influenced by social culture and sales increase.

### 2.4. Technological factors

With the development of electronic information technology, e-commerce has become the main marketing channel of cosmetics. Brands have seized the opportunity to open flagship stores on Taobao. They also advertise heavily on very kinds of applications such as Xiaohongshu, Tiktok and Kuaishou, and use celebrities as product endorsers to broaden the range of sales. E-commerce has made the cosmetics industry booming.

Most domestic beauty products have always been accustomed to imitating international brands such as Armani, Nars, Dior. These domestic brands are not technically mature and cannot innovate, so they imitate the colors and textures of international brands and make profits by relying on low prices and massive publicity. In addition, most beauty products use chemicals. The downside of chemicals is that they can cause a certain amount of damage to the skin such as allergies, breakouts, and other side effects. In China, only a small number of products use safe materials as raw materials, such as Herborist, focus on Chinese herbal medicine for skincare products, and Florasis makes cosmetics by extracting active ingredients from flowers.

China's cosmetic industry needs to constantly update and improve technology, make independent innovation, and develop products with good effects and high quality. The domestic cosmetics industry can transform from the model of low price and many advertisements to compete with leading industries in technology and services. Then to become the world's leading cosmetics companies.

## 3. THE PRESENT SITUATION AND PROBLEM OF CHINESE DOMESTIC COSMETICS

### 3.1. Domestic brands have low brand value

Brand value is an important symbol that distinguishes a brand from its competitors. Compared with the foreign cosmetic brands with a long history, the influence of new Chinese domestic cosmetic brands is low. L'Oreal has been around for more than 100 years, Estee Lauder 72 years. In a short time, new Chinese domestic products can hardly compete with international brands in brand value. It can be observed that no matter in duty-free shops, Taobao, or physical stores, the sales volume of these foreign brands far exceeds that of Chinese domestic brands. Although Perfect Diary, Florasis, Winona, and other domestic cosmetics have rushed to the front, if they want to further development, they will bear the challenge of international brands. Young consumers are willing to buy domestic products because of their limited economic capacity and income. When they are old and have good economic conditions, their priority choice is probably still international brands.

### **3.2. Domestic brands rely too much on Key Opinion Leader (KOL)**

With the development of short video platforms such as Tiktok, and social media platforms such as Microblog and Xiaohongshu, e-commerce live streaming has become one of the marketing modes of various cosmetics enterprises. Online marketing for domestic cosmetic products is mainly about KOL promoting products. The enterprises cooperate with KOL on different platforms. Rapid promotion, discounts, coupons, and other ways to make consumers feel affordable and easy to use. They influence consumers' consumption decisions, and iterate products through user feedback. For example, during the June 18 promotion period, many Tiktok celebrities such as Li Jiaqi, Wei Ya and other beauty experts and many celebrities would broadcast and promote different products on social media.

At the same time, many problems have arisen. Brands have many troubles when choosing KOL. For instance, many enterprises are unable to make clear the true reach rate of KOL, the age distribution of KOL fans, and the compatibility degree of each KOL fan, which all affect the final result of marketing by this method. In addition, some brands pay too much attention to conversion rate and realization, and over-advertised the efficacy of cosmetics in cooperation with KOL, resulting in excessive consumption of fans. Thus, cannot achieve the effect of consumer satisfaction.

Florasis, a domestic cosmetics brand, as a new domestic brand, has been adopting the online sales model after entering the market. It ignores the importance of offline stores. Offline stores can meet consumer needs that consumers cannot experience online. For example, try cosmetics samples, shopping guide's personalized recommendations. Thus, with being highly dependent on online marketing, it is almost impossible to achieve long-term profitability and growth.

### **3.3. Serious homogeneity**

Domestic brands have duplication of market positioning, serious homogenization, and lack of research and development products, so they have been stuck in the middle and low-end market. Nowadays, the most serious problem caused by the highly developed OEM and ODM factories of domestic brands is serious homogeneity. Because the mainstream of cosmetics is still foreign brands, Chinese domestic cosmetics imitate the functions, appearance, and even color of these products. For example, many consumers now say that some local brands are cheap substitutes for some foreign brands. In addition, a certain ingredient is very popular in a certain period and the effect is very good. Various manufacturers follow suit and recommend this kind of cosmetics on various platforms and KOL. The result is a price war between brands. For example, the price of a brand

flagship store is 59 yuan, while the price of a celebrity promotion is 49 yuan. Although such manufacturers have traffic and advertising, almost no profit. In addition, Perfect Diary spent 3.412 billion yuan on marketing and only 67 million yuan on research and development(R&D). Therefore, for the current cosmetics industry, the price war is not wise. The goal of the brand should focus on how to stand out in the homogeneous market.

## **4. RESOLUTION STRATEGY**

### **4.1. Strengthen the brand value**

The promotion of brand value is a systematic project, which requires long-term efforts. The brand value of an enterprise can be established from two aspects. On the one hand, the brand itself can be established. Companies can gain from good marketing planning practices by accumulating brand equity as it increases. Herborist, for example, is heading for high-end cosmetics. From enterprise strategy formulation to product planning and promotion, comprehensively enhance their brand value. As BrandZ2016 Top 100 Most Valuable Chinese brands, Herborist ranks 69th, with a brand value of over 590 million dollars, and becomes the only cosmetics brand in China that lists skincare and beauty makeup. On the other hand, brand value promotion can rapidly expand their brand image by cooperating with other brands, thus creating more added value. Some international brands are often good at making use of their advantages to "strong" brand cooperation with leaders in other industries. With a larger and broader market, there are more opportunities to strengthen their brand image, thus promoting a win-win for both sides. In 2014, Estee Lauder also acquired L Rodin, a top US skincare brand. With Rodin Olio Lusso's luxury product line and strong creativity, it has become a high-growth global skincare brand. It strategically complements Estee Lauder's product portfolio.

### **4.2. Expand sales channels**

Although beauty companies can make a lot of profits by relying on KOL, there are also many disadvantages. So, how to avoid KOL vulnerabilities is very important. For example, after a promotion with KOL, there will be a part of consumers. The company can establish a fan base and carry out later promotions within the fan base. In this way, it does not need to always seek KOL for publicity and reduce the company's investment in KOL. Businesses can also build lifestyle-sharing communities. Little Red Book, for example, does this very well. Through User Generated Content (UGC) as the main, Professionally Generated Content (PGC), and Professionally User Generated Content (PUGC) as the auxiliary, the machine algorithm is used to accurately reach users. In this way, the personalized and continuous output of high-quality content targets consumers and boosts the growth of the brand.

### **4.3. Product differentiation**

In this era of homogenized products and marketing, how do Chinese cosmetic brands stand out? First of all, companies are constantly devoted to subdividing customer needs to differentiate their goals and distinguish competitors. Brands can break the boundaries of the product and break the boundaries of the crowd to increase product sales and enhance product recognition. For example, the essence of YSL, besides the common effect, also has the composition of the other skin protective effects. If consumers stay up late, it can still let their skin white and smooth. More importantly, a brand should be based on independent production, OEM production as an auxiliary, to develop further. The core product of a brand often determines the brand positioning, and independent production will be stricter in the control of product quality, which also helps consumers to establish a professional image of the brand. For example, the self-production ratio of Shanghai Jahwa, Pelaiya, Maru, and other products is above 90%. Limited by capital, China's start-up brands usually choose OEM production, such as HFP, whose OEM ratio is up to 100%. With the gradual maturity of the brand, the capital and technical strength have been improved, the brand needs to start to layout the independent production base, and gradually improve the proportion of independent production. Domestic cosmetics can compete with foreign brands only when the internal strength of the brand has become stronger.

## **5. CONCLUSION**

In this research, the PEST model is used to analyze the situation of China's domestic cosmetics. The support of national policies, the growth of per capita consumption level, the improvement of people's requirements for beauty, and the development of science and technology have provided a good foundation for the development of domestic cosmetics. The results of this study revealed that Chinese domestic cosmetics have gradually begun to compete with foreign high-end cosmetics, and have made certain achievements. However, due to the low-price positioning, OEM products, and excessive reliance on KOL marketing, the development of Chinese domestic cosmetics is in a bottleneck period, and it is difficult to compete with foreign brands. This is consistent with previous studies, that is, Chinese cosmetics enterprises uphold their advantages while building brand value and continuous independent innovation.

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