



# Perfect Diary Investment Analysis

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**Abstract.** With the continuous development of the social economy and the deepening of consumption upgrades, cosmetics, as one of the leading retail industries, has become a major consumption hotspot. In the increasingly fierce market environment, the perfect diary with its unique advantages, in many brands when the crowd stands out. Its development has attracted the attention of many investors. In this paper, we will take Perfect Diary as the object of analysis, evaluate the investment value and investment risk of Perfect Diary through the SWOT analysis method, and give investment advice. The study found that Perfect Diary, despite its recent crisis, is still worth investing in.

**Keywords:** SWOT · Cosmetics Market · Business Model · Investment Opportunities

## 1 Introduction

Despite the economic downturn, the consumption of cosmetics has not been significantly affected. The cosmetics industry has a high prospect, although the short-term impact of the epidemic is partially suppressed. 2021 China's cosmetics retail category sales were RMB402.6 billion, up 14% year-on-year. 1.8% year-on-year growth in retail sales in the first quarter of 2022, cosmetics consumption is gradually returning to normal, but sporadic epidemics around the country still impact. With consumers' makeup habits gradually developing, cosmetics consumption has become a necessity. 2022 saw the implementation of some more extensive policies and reforms in China's cosmetics market. What is more, 2022's new regulations attempt to make the industry more regulated and transparent, focusing on product safety while longer product testing cycles and doubling efficacy costs, forcing brands towards a more innovative and professional path. There is hope that the top cosmetic companies will further increase their market share through core ingredients and specialized formulations. Cosmetic brands are also facing more intense competition [1]. As traditional e-commerce (traditional online shopping platforms such as Taobao) gradually become established, brands will need to compete for a social media share like Jitterbug. Some cosmetics segments, such as essences, are characterized by high sales volume and fast growth. Still, the competitive threshold is relatively high, requiring brands to have a certain depth of scientific research results. Meeting specific demand scenarios requires extreme sensitivity to the market, which tests the brand's consumer insight [2].

## 2 Data and Method

### 2.1 Perfect Diary Corporate Description

On November 10, 2020, Yixian E-Commerce (YSG.N), the parent company of Perfect Diary, went public on the New York Stock Exchange, making it one of the world's youngest listed beauty groups. This was just four years after its founding in 2016.

Before the IPO, Perfect Diary's valuation once skyrocketed more than 40 times in 3 years. As the head of the national beauty track, Yixian has been favoured by major VC/PE since its inception and has received investment from several top-tier investment institutions, such as Zenith Fund, Banyan Capital, Hony Capital, High Tide Venture Capital, Boyu Capital, Tiger Global Fund and CMC Capital.

High Tide Venture Capital, a VC fund of High Tide Capital focusing on early-stage venture capital investment, has invested in five consecutive rounds since its first investment in Yixian Dianshang in May 2018, holding 13.8% of Yixian Dianshang's shares before IPO. The continued hotness of the beauty track has made the capital market full of confidence, and on the first day of listing, its share price jumped 75.24%, with a market value of \$12.245 billion.

### 2.2 Introduction of SWOT Analysis Method

The so-called SWOT analysis, that is, based on the internal and external competitive environment and competitive conditions of the situation analysis, is closely related to the object of study of various major inner strengths, weaknesses and external opportunities and threats [3]. Then, using system analysis, the multiple factors match each other to analyze. A series of corresponding conclusions and findings are usually of a decision-making nature [4].

Using this method, we can conduct a comprehensive, systematic and accurate study of the situation of the research subject and then formulate corresponding development strategies, plans and countermeasures based on the study results.

## 3 Results and Discussion

### 3.1 SWOT

#### 3.1.1 Strengths

1. Perfect Diary entered the market earlier, occupying a larger market share and higher visibility.
2. Perfect Diary is often co-branded with other brands to create product stories and make the products more memorable. Perfect Diary once co-branded with Discovery Channel to launch an animal eyeshadow palette, using the eyes of wild animals as inspiration and incorporating that part into the packaging. Perfect Diary also has co-branded with National Geographic China, combining the magnificent beauty of China into the eyeshadow palette, with the syringe painting process on the packaging, perfectly restoring the geological landscape of nature. In addition, Perfect Diary has

also joined hands with Oreo, Metropolitan Museum of Art, Puppy Pan, and other parties across borders to bring different styles and symbolic products to users. This achieves multiple upgrades in product technology, cultural connotation, and creative design, which invariably enhances the exposure and visibility of the products [5].

3. The DTC model shortens the length of the supply chain and brings higher responsiveness. Under the digital native DTC (Direct to Consumer) model, through social media, KOL and users launch a deep interactive social marketing, rapid response to user feedback, and influence user consumption decisions [6]. Through the efficient operation of the DTC model, Perfect Diary has abandoned the massive investment in traditional TV commercials and print advertisements and turned its attention to social-oriented media platforms such as Xiaohongshu and WeChat.

### 3.1.2 Weaknesses

1. Serious product homogenization, lack of core technology eye shadow, eyebrow pencil, and other more severe product homogenization. Although there are new products released every quarter, the overall difference is not much, and such products have less difficulty in research and development, so also many competitive products.
2. A highly competitive market. The marketing expenditure of Yixian E-commerce is 1.25 billion yuan in 2019 and reaches 3.41 billion yuan in 2020. 2018,2019 marketing and promotion expenses of Perfect Diary account for 48.7% and 41.3% of net revenue, which jumps to 65.2% in 2020. The prospectus also mentions that the brand works with 15,000 KOLs. Although helping the brand to increase awareness quickly, excessive publicity caused a lot of consumer resentment. Meanwhile, the growth of marketing expenses is the main reason for the company's loss. From 2018 to 2020, gross margin has been maintained at 63% to 64%, but excessive marketing has led to a considerable increase in marketing expenses, which is much higher than the growth rate of gross margin and revenue.

According to the report, Yixian E-Commerce's 2021 Q4 revenue was 1.53 billion yuan, down 22.1% from last year. Sales of skincare brands were up in that quarter, while the main reason for the decline in revenue was the significant drop in sales of colour cosmetics brands.

The gross margin for Q4 was 65%, a decrease of 1.3% from the same quarter last year. Sales and marketing expenses as a percentage of total revenue reached 70.7%, which was not significantly different from previous quarters. Since the beginning of Q2 2020, Yat Sen's sales and marketing expense ratio have remained above 60%, reaching a maximum of 72.1%. This percentage is not low, as the head company, Estee Lauder's 2022 Q2 financial report (i.e. the natural year 2021 Q4) shows that the company's total operating expenses (including marketing, administration, R&D, etc.) account for less than 60% of total revenue.

3. The brand has the reputation of being a flat replacement, and it isn't easy to upgrade the brand. In the beginning, Perfect Diary's publicity claimed to be the substitute of some international makeup brands, which quickly helped the brand attract many customers. However, it laid a hidden problem for the brand upgrade in the future.

4. The product user experience is not good. Many KOLs complained that Perfect Diary's eyeshadows are challenging to smudge and have poor colour rendering (these two points are essential criteria for evaluating eyeshadows), and lipsticks are very dry. With the rise of China's makeup market, there are more and more inexpensive brands with good product quality, and consumers have a higher sensitivity to beauty products. Perfect Diary has fewer and fewer advantages as a branding flat replacement.

### 3.1.3 Opportunities

1. With the tax increase, not only will consumers choose domestic brands because of the high price of foreign brands, but also because of patriotic sentiment and preference for domestic products. With Generation Z becoming the primary consumer, the "domestic" label has become an advantage rather than a disadvantage.
2. China's beauty market has not yet entered a mature stage, and the market barriers have not yet been formed.
3. There are few high-end beauty products from local brands in China. With greater market awareness, Perfect Diary can try to develop high-end branch lines.

### 3.1.4 Threats

1. There are more beauty brands in the same price range and more competitors.
2. Heavy reliance on financing scenery for marketing, there is a risk of capital breakage. 2020, perfect Diary's marketing expenses are 3.412 billion yuan, marketing expense ratio of 65.20%. At the same time, marketing expenses are not available once, and for all, marketing is needed every quarter whenever a new product appears, and if Perfect Diary keeps taking heavy marketing, the capital flow will easily break.

Without core R&D technology and product technology, the products are easily imitated, and there is a higher risk of potential industry entrants. From the situation on the number distribution of Perfect Diary's staff management structure, it is clear that 249 marketing managers, 1,196 professional beauty and makeup management consultants in the offline market, and 1,056 online marketing and online customer service, the total marketing staff accounts for 86% of the total number. In contrast, R&D, product and supply chain only add up to 113 people, accounting for only 4.3%. Yixian E-Commerce invested 43.3 million yuan in R&D this quarter, and the ratio of R&D to revenue increased to 2.8% from 1.3% in the same period of 2020. Whether we can accumulate brand equity through product power in the future is unknown, but at least we see some effort.

3. Heavy reliance on foundries is a weak position in the supply chain, with potential foundries at risk of running their brands. Perfect Diary did not build its factories at all but chose a heavy foundry model. As disclosed in the prospectus, its leading foundry factories are Cosmopolitan, Yingteli and Coma, which also OEM some of the products under L'Oreal, Dior, Lancome and other major international brands, respectively. From the international brand Estee Lauder to the national product Baizi, the foundry has been the industry's "secret to tell". Most of the brands have their

own factories, and some of the things are taken to processing, while the perfect diary "born in a foundry" relies heavily on foundries.

#### 4. Low prices cannot meet the diversified market.

In the Internet + era, new retailing has undergone many changes to form recent trends. At the same time, consumer upgrading, the rise of new domestic brands, and the traditional pursuit of low prices to go to the volume of consumption era have become history; price is no longer the main factor in the competition of major beauty companies. In the previous period, the perfect Diary to meet the needs of the target users, the rapid expansion of the market adopted the extremely low price strategy, but with the persistence of the product has adopted a long-term low price strategy led to the perfect Diary's profit margin is compressed, the gross margin also lacks competitiveness. While the customer price of competitors in the industry continued to rise, the customer price of Perfect Diary remained stagnant. When young consumers' spending power is increasing, Perfect Diary's low-priced products can no longer fully meet the needs of diverse customers [7]. To sum up, Perfect Diary should gradually change its ongoing low-price strategy, develop a price management system, achieve product price differentiation, and meet diversified consumer needs. This will enable us to gain competitiveness in the market and ensure the company's long-term development [8].

### 3.2 Recent Discussion Based on SWOT Analysis

When it went public in the U.S. in November 2020, Yixian E-Commerce was a great success and was hailed as the "light of the nation". Today, however, its share price is less than \$1. Its market value has fallen by \$6.2 billion (about RMB 39.5 billion), which is equivalent to the market value of one Perrier (which currently stands at \$37 billion). And it also recently received a delisting warning. Meanwhile, after two consecutive years of losses of 2.69 billion yuan and 1.55 billion yuan, Yixian E-Commerce faces a more significant crisis: a slowdown in revenue growth. According to its earnings report, in the fourth quarter of 2021, Yat Sen's revenue declined by 22.1%. The main reason for such a predicament for Yixian E-Commerce is still the stagnant growth of its leading brand Perfect Diary.

After entering Xiaohongshu in September 2017, the recently established Perfect Diary skyrocketed to nearly 50 million yuan in just four months. It then achieved rapid sales growth through successful marketing on ShakeYin, B Station, and Taobao Live. By 2019, its sales were close to 3 billion yuan, making it the local colour cosmetics brands leader [9].

The success of Perfect Diary is, on the one hand, luck, just in time to catch the traffic bonus of the rise of new media platforms such as Xiaohongshu and Jieyin, Thus Perfect Dairy has the ability to convert the massive traffic obtained from new media platforms into sales. On the other hand, it is because it chose the color cosmetics track with low brand loyalty and cut in with affordable color cosmetics, which greatly reduces the cost of tasting new to consumers. But with the further development of the brand, Perfect Diary began to encounter a series of problems. Firstly, the traffic bonus of the major new media platforms gradually disappeared. In the early stage of its rapid growth, for example, the cost of acquiring traffic for the brand was meagre, and the ROI could even

reach more than 1:2. Still, as the platform entered its maturity, the traffic growth slowed down, coupled with the entry of competitors, and the marketing cost of the brand began to increase rapidly [10].

At the same time, because the successful model of Perfect Diary can be easily imitated, brands such as Flower West and Tangerine have sprung up to compete fiercely with Perfect Diary. According to the relevant information, the annual sales of Flower West in 2019 were 1.13 billion yuan. In 2020 is more than 3 billion yuan; in 2021, it is 5.4 billion yuan.

In the face of the colour cosmetics market that has become a red sea, the perfect Diary to continue maintaining growth can only pay more significant costs. Previously, the founder of Yixian Electric said in a media interview that the company invested a huge amount of marketing costs in 2021 because competitors across the industry increased marketing investment resulting in marketing costs water level.

According to the financial report, the marketing expenses of Yixian Electric reached 4 billion yuan in 2021, accounting for 68.5% of total revenue, much higher than peers such as Perrier and Shanghai Jahwa.

But for Perfect Diary, losing money is not the worst thing. What's worse is that nowadays, it's hard to maintain high revenue growth even if it burns money to buy traffic. Because attracting traffic by spending money on advertising is a relatively simple means, Perfect Diary's competitors have also adopted this strategy. At the same time, consumers have also become smart, and they are gradually becoming sensible and not spending blindly based on advertisements. This makes the marginal revenue through advertising gradually decrease. And once it stops growing, its market share will be quickly snatched by competitors and the brand will enter a rapid decline phase. In 2019, Yixian Electric's R&D investment was only 23 million yuan, a year in which its revenue exceeded 3 billion yuan. The revenue share of R&D investment was only 0.8%, far below the general level of the same industry. After that, Yixian gradually increased its investment in R&D, and by 2021 its R&D investment had reached 142 million yuan. Its revenue share had grown to 2.43%, basically getting the general level of the industry. In fact, in the current dilemma encountered by Yixian Electric, many new brands in the development of a particular stage will also meet.

## 4 Conclusion

Perfect Diary has been in a big crisis lately, mainly because of over-investment in marketing. But I think it is still worth continuing to invest in the perfect Diary. The current market awareness is vast, which is a good basis for the future brand of other products based on this better publicity. I think it's a pity that the brand stops here. Otherwise, a lot of marketing work would have been wasted.

I think the brand needs more technical resources and needs to put more money into technological development, only outstanding products will have more people initially buy for the brand. Although the company behind Perfect Diary has acquired brands that are doing very well in the field of makeup remover, only the technology of makeup remover is not enough. The technology of makeup remover does not bring new products to Perfect Diary in the short term, and the brand has not launched any new developments

about makeup remover recently. I think it would be a good investment for Perfect Diary if it could support the technology. Secondly, I think Perfect Diary has the potential to transform into a mid-to-high-end domestic cosmetic product, as the Chinese cosmetic market is not yet fully fixed and the high-end cosmetic market in China is currently dominated by foreign companies, with only a handful of local high-end cosmetic brands. Having a higher quality product could help the brand enter the high-end market. Perfect Diary's profit margin for individual products is relatively low compared to mid-to-high-end brands, and if consumers can recognize it as a high-end brand, the company's profit margin can be significantly increased.

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