



# An Analysis of China's Cosmetics Market: Taking Estee Lauder Companies Inc. as an Example

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**Abstract.** Estee Lauder makes a brilliant performance in China's cosmetics market and occupies a large market share of the middle and high-end products. Studying the performance of Estee Lauder Companies Inc. Will give the raising Chinese local cosmetics companies an insight into successful business pattern. The cosmetics market in China is constantly improving, as well, an increasing number of local cosmetics companies start entering the competition of the high-end market. This paper finds that Estee Lauder is in a monopolistic competitive market, and it takes efforts to make good use of advertising in order to reduce the impact of asymmetric information. In addition, I provide evidence and analysis for the irrational behavior of consumers.

**Keywords:** China's cosmetics market · marketing channels · market supervision · price discrimination methods · advertising · consumer irrationality

## 1 Introduction

China has developed into the world's second-largest cosmetics market, with retail sales quadrupling in 2019 compared with 2009 [1]. With the growth of disposable income, the wide spread of fashion information, and the rapid development of the Internet, Chinese consumers' demand for skin care and beauty products is growing, and the gender and age of consumer groups are no longer limited to young female consumers. Some analysts believe that the cosmetics market will become one of the fastest-growing and most promising businesses in China [2].

Estee Lauder Companies Inc. Has been founded in 1946, and ranks 215 in the global 500 [3]. The company mainly sells skin care, makeup, perfume, and hair care products. Its products are sold in more than 130 countries and regions all over the world. Estee Lauder Companies Inc. Owns famous cosmetic brands such as Estee Lauder, Clinique, La Mer, M.A.C, Tom Ford, and Jo Malone. Estee Lauder Companies Inc. Ranks eighth in China's cosmetics market share. Moreover, it has established a research and development base in Shanghai.

I am going to analyze Estee Lauder's performance in China's cosmetics market, from the perspectives of market structure, market supervision, company's cost structure, price

discrimination methods, information structure, advertising, and consumer irrationality. As an increasing number of Chinese cosmetics companies start entering the competition of the high-end cosmetics market, this analysis will bring insight into a successful business pattern.

## 2 Overview of China's Cosmetics Market

As shown in Table 1, China's cosmetics market has grown rapidly in the past decade. Despite the impact of COVID-19 in 2020, the Chinese cosmetics market has basically recovered and maintained an upward trend, compared with the significant reduction in demand in Europe and North America [4]. According to National Medical Products Administration, in the monopolistic competitive market, there are 5278 enterprises qualified to produce cosmetics, and cosmetics products can be divided into three categories: high-grade, medium-grade and mass cosmetics. Most of the market share is occupied by foreign brands, led by brands such as L'Oreal and Estee Lauder, which account for about 86% of total retail sales [5]. Medium and high-end products are mainly composed of foreign brands and Sino foreign joint venture brands. At the same time, multinational companies seize the low-end market by purchasing local brands. In recent years, a large number of domestic brands have sprung up, their pricing is generally low, and they aim at the broad low-end market segmentation [6].

The main entry barriers are brand, technology, marketing channels, and product quality [7]. Firstly, with the development of the Internet "We Media", brand recognition and trust have become an important basis for consumers to choose cosmetics. Building brand popularity needs a large amount of time-consuming and investment, thus new enterprises are not able to compete with enterprises with brand advantages in a short time. Secondly, the research and development of cosmetics involve the cross-application of life science, the fine chemical industry, skin science, and botany. Developing a new product requires the support of a technical team, which makes it difficult for new enterprises to enter the industry. More importantly, the marketing channels: shopping malls, and franchised stores, as traditional marketing channels, require brands to be well-known and rent payment; however, comprehensive shopping websites such as Taobao, T-mall, and Jing Dong have gradually become the most popular marketing channels, relieving the economic pressure of new enterprises to a certain extent. Finally, with the development and standardization of the industry, the quality requirements of the Chinese government for cosmetics are constantly improved. The Regulations on Hygiene Supervision of Cosmetics stipulates that enterprises need to obtain the Cosmetics Manufacturing License approved by National Medical Products Administration (NMPA) before they produce and sell commodities [8, 9]. In addition, the import products need to be approved by NMPA or provincial MPAs [10].

## 3 Market Supervision

China's anti-monopoly law was implemented in August 2008, including prohibiting competitive operators from entering into monopoly agreements, abusing market dominance and investigating suspected monopolistic behaviors [11, 12]. NMPA, as a government agency that supervises monopoly behavior in the cosmetics market, focuses more

**Table 1.** China's cosmetics market retail sales value (source from Statista, 2022)

Year	Retail Sales (RMB billion)
2016	222.2
2017	251.4
2018	261.9
2019	299.2
2020	340.0
2021	402.6

on investigating counterfeit products and supervising product quality: taking 2015 as an example, NMPA investigated 6139 cases and closed 260 involved enterprises [13]. However, there has never been a specific investigation into monopoly behavior. At the end of 2010, Dior, Lancome, Biotherm, Chanel and other international first-line brands collectively raised their prices by 5% to 10%, which was considered and suspected to be collaborative price hikes by the Consumer Association [14]. In March 2011, P & G, Unilever, Cnice and Liby increased the price of cosmetics such as shower gel and shampoo by 10% to 15% [15]. In contrast to the disregard of Chinese regulators, the French Competition Authority (FCA) has fined P & G, Unilever and L'Oreal a fine of EUR 605.9 million for collusion in pricing between 2003 and 2006 [16]. China's anti-monopoly supervision and enforcement procedures are still not perfect and cannot effectively punish and prohibit anti-competitive behavior.

#### 4 Cost Structure

According to Estee Lauder's annual report [17], operating expenses from 2017 to 2019, including fixed costs such as rent, equipment, marketing, wages and R & D funds, account for 62% to 65% of the total costs. With the expansion of the target market to the Asia Pacific region, especially in China, Korea and Japan, Estee Lauder has shifted its focus to product innovation to meet local demand. At the same time, the company has invested a lot of energy and resources to analyze and respond to consumer preferences. The main raw materials of products are essential oil, alcohol and special chemicals. Products are produced jointly with third-party manufacturers and Estee Lauder's own manufacturing equipment. Additionally, the establishment of a global distribution network provides a stable logistics network and marketing channels for products.

In 2016, the company released the "Leading Beauty Forward" (LBF) program, which aims to enhance the company's marketing capabilities and better utilize the cost structure. The program helps the company achieve economies of scale, scope by increasing product sales, supporting product diversification, and brand diversification. Moreover, the trend of product appearance and packaging simplification appears in the cosmetics market [18]. Consumers generally accept the idea that "less is more" and intuitively equate simplicity with good taste and high quality. Following this trend is conducive to saving costs and achieving economies of scale.

## 5 Price Discrimination

According to Morgan Stanley [19], online sales of cosmetics in China increased from 5% in 2010 to 19% in 2015. Online shopping and social media have affected consumers' shopping habits, and the marketing channels of department stores are being impacted by the peer-to-peer sales model [20]. In the context of digitization, consumers have various ways to gather information, which makes it difficult for companies to use price discrimination methods. Estee Lauder's method belongs the third-degree price discrimination, which means charging different groups of people different prices. Users registered on the company's official website will receive email reminders of discount or price reduction activities from time to time. In Taobao, Jingdong and other online shopping platforms, consumers who have followed the enterprise's official account will receive a certain amount of coupons. In addition, online and physical stores often offer different short-term sales discounts on special days such as the Spring Festival and the double 11 Shopping Festival.

## 6 Information Structure

With the rise of online shopping, product price information is more transparent. The official website and diversified online shopping platforms provide consumers with clear price information. However, cosmetics have natural experience commodity attributes. For example, consumers cannot know whether a skin care product can whiten and brighten as advertised before using it for a period of time; consumers can't know whether lipstick is exactly the same color as the one in the advertising image before buying it. Therefore, consumers can not easily observe the quality of goods. In this case, physical stores show an advantage. Compared with online stores that can only provide product descriptions and promotional images, consumers can try out products for free or even get samples of target products in physical stores, and then make purchase decisions based on their experience.

## 7 Advertising

According to the annual report [17], Estee Lauder's advertising investment increased from \$2689 million in 2018 to \$3.44 billion in 2019 and plans to continue to increase advertising investment. At the same time, the company is optimizing its structure and shifting its focus from the traditional marketing model to social marketing and digital marketing strategy. This decision follows the market trend: short videos, blogs and live broadcasts have become the mainstream means of product promotion [21–23]. TikTok, Kwai, Little Red Book, Oasis and other short video and blog-sharing platforms attract a large number of bloggers to share makeup, recommend cosmetics and make comments on cosmetics. Those bloggers who have a large number of fans and a great influence on the platform are called key opinion leaders (KOLs). Most cosmetic companies, including Estee Lauder, choose to cooperate with KOLs and send their products to KOLs before they are officially put on sale. Through KOLs online account, they publish product evaluations, and pictures and user experience, so provide target groups more intuitive

perception of the characteristics of the products. To some extent, the disadvantages of cosmetics' natural experience commodity attributes can be complemented through advertising. They can provide potential customers with a full picture of the product's appearance, texture, and effect, at the same time, showing the correct way to use the product. Especially, KOLs are willing to respond to the comments under their post, in order to gain more followers and maintain the popularity of their posts. In the meantime, the communication between KOLs and their blog readers can help cosmetic companies solve problems their customers may encounter and get feedback on real user experience. According to Kwai's 2019 makeup and makeup industry report, there were more than 30 million videos of cosmetics attracting 853.7 billion people's browsing [24].

More importantly, Taobao's live online sales are also one of the important ways of product promotion. Online live broadcasting can come from a certain brand or an individual host. Unlike the former, in the live room, the anchor can communicate with the audience in real-time and answer product-related questions. Estee Lauder invited the most popular singers and actors in China to speak for the brand, and invited them to the live room of the brand to interact with fans. According to statistics, in 2019, Yang Mi, Xiao Zhan and Li Xian, as brand spokespersons, brought 120 million fans to the brand, and made Estee Lauder's daily pre-sale sales of the Double 11 Shopping Festival topped the list with 587.39 million yuan [25]. At the same time, Estee Lauder put the product publicity photos into various kinds of daily mobile applications, such as microblog, WeChat, Baidu map, Gaode map and Tencent video, so that users of these apps can see the advertising when they open the software.

## 8 Consumer Irrationality

As mentioned in Sect. 7, Estee Lauder invites stars and KOLs to promote its products. Carefully decorated pictures, provocative words and delicate faces of stars all drive consumers to impulsive consumption. Take the Double 11 Shopping Festival as an example, Advanced Night Repair Eye Concentrate Matrix and Supercharged Complex Synchronized Recovery, which are Estee Lauder's most popular products, are with a discount of 5% to 10%, while sales are growing disproportionately. In another word, the influence of stars and KOLs can significantly amplify the incentive of discounts to product sales, so that consumers are willing to pay for the product they may not need currently, or choose the product from its identical. After April 2020, when China's epidemic situation tends to be stable and people no more need to use masks, Estee Lauder's cosmetics sales growth in China was consistent with the lipstick effect. Despite the economic downturn and lower income, the demand for cosmetics, especially lipstick, has rebounded rapidly. In 2020, 230 thousand of lipsticks have been sold in one hour of the Double 11 Shopping Festival. What's more, for instance, M.A.C of Estee Lauder Companies Inc., the brand launch Christmas limited products such as Christmas lipstick and eye shadow plate every year. Many consumers tend to pay higher prices or buy more products for beautiful packaging and product design.

## 9 Conclusion

This article analyzes the situation of Estee Lauder in China's cosmetics market. In the monopolistic competitive market, the company has high brand awareness and mainly faces the middle-end and high-end consumer groups. Fixed costs account for about 65% of total costs, and companies need to benefit from economies of scale by increasing sales and brand diversification. Product pricing is relatively transparent, members of Estee Lauder will receive discounts and discount coupons from time to time. Estee Lauder company makes full use of digital media for product promotion, to some extent, drives consumers' irrational consumption. Moreover, China's cosmetics market is not perfect, and the anti-monopoly investigation mechanism has not played a role.

Through this analysis, young Chinese local cosmetics companies should learn from Estee Lauder's successful experience, so as to improve their competitiveness and market share in the Chinese cosmetics market.

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