



## CHINA



## Still growing

China's beauty market continues to see strong growth, despite sporadic lockdowns and worries about the overall economy  
by Sophie Douez

Beauty brands continue to see strong growth in China, as they lean into the opportunities presented by e-commerce, premiumization and a market where most purchases are now done domestically.

Sales of prestige beauty online rose 47% to \$5.4bn in the first half of 2021, according to NPD Group. Skincare, the market's biggest category, reported online sales of \$6.7bn in 2020, followed by make-up with \$2.2bn and fragrance at \$620m. Heavily impacted by mask wearing and social restrictions in 2020, make-up purchases have increased again this year, with higher demand for facial products like powders and foundations, according to NPD. As for fragrance, brands highlight increased demand for the category in the country—especially for niche scents. Fragrance house Takasago estimates that China will become the number-one fragrance market before 2030. According to Euromonitor, overall

sales of fragrance rose by 15% last year to reach \$1.4bn.

China's advanced e-commerce environment has continued to accelerate, driving a greater share of sales for beauty brands across the country. L'Oréal China recorded 60% growth in online sales in 2020, with the channel now accounting for 56% of the company's total sales in the country.

In the wake of the lockdowns last year, many beauty brands brought forward plans to launch online stores on platforms like Tmall and JD. Coty Executive Vice President Asia Pacific Marco Ficarelli says the company's ambitions to triple its business in China by 2025 rest heavily on a beefed-up online presence. He says the recent launches of Tmall flagship stores for Burberry and Gucci and Calvin Klein on JD.com have helped drive double-digit growth for the company. In its fourth-quarter results announced in late August, Coty said its prestige beauty brands are booking near triple-digit, sell-out performances in both physical and online retail in China.

### Key happening

A flurry of measures from the Chinese government over the past few months has raised questions about their impact on consumption and the changes that major companies may need to make to operate in the market. The recent moves have given rise to worries about a potential increased 'regulatory risk' for companies when it comes to doing business in the country. Many of the measures have targeted the tech sector, and particularly the country's Big Tech players. In addition the government has moved to limit the amount of time children spend gaming to three hours per week, and declared its intention to redistribute wealth away from the super-rich to the middle class in the name of common prosperity (the impact on luxury is likely to affect high-end categories such as jewelry more than cosmetics). Social-media and TV personalities too, are set to be under more scrutiny, with the government's new guidelines that ban "effeminate men" from presenting on TV and look avoid promoting "vulgar internet celebrities."



Faced with intense competition, promotions increased in the first half of 2021, average unit price for the top-10 corporations decreased from \$71 in the second half of 2020, to \$68 in the first half of 2021. Discounts were usually associated with sales festivals, but also the greater use of beauty influencers during livestream promotions



NPD Group E-commerce Commercial Lead  
Samuel Yan

"We were very fast in understanding the importance of developing our e-commerce business [and...] all the changes that we were planning to do step by step over the year we decided to accelerate, and this created a big buzz in our business. And what we did has also been done by our competitors," comments Ficarelli. "We also changed the strategic priorities within our portfolio business to focus on our prestige brands—in particular on the two top-performing brands, Gucci and Burberry. In fragrances, we have focused on niche and ultra-premium fragrances like Gucci's The Alchemist's Garden, where we see the strongest demand from the Chinese consumer."

### Promoting promotions

There is no doubt that China's e-commerce environment is crucial for beauty brands' fortunes, but the dominance of online shopping festivals and huge popularity of livestreaming is making the market increasingly promotional and forcing brands to sacrifice margins. NPD product launch data reveals brands are increasingly launching small-format tester products or making products more functional to attract new customers.

"Faced with intense competition, promotions increased in the first half of 2021," comments NPD Group E-commerce Commercial Lead Samuel Yan. "Average unit price for the top-10 corporations decreased from \$71 in the second half of 2020, to \$68 in the first half of 2021. Discounts were usually associated with sales

### China at a glance

- **Population:** 1,397,897,720 (July 2021)
- **Urban population:** 62.5%
- **Men vs Women population:** 1.06 male(s)/female
- **Youth population:** (aged 15-24) 11.48%; (aged 25-54): 46.81%

- **Forecast GDP growth 2021:** + 8.5%

Sources: CIA World Factbook, World Bank

### China's beauty market

- **Beauty & personal care sales 2020:** \$73.35bn

- **Forecast beauty & personal care sales 2021:** \$85.2bn, +13.1% vs 2020

**Prestige skincare sales 2020:** \$15.05bn

**Prestige color cosmetics sales 2020:** \$4.21bn

**Prestige fragrance sales 2020:** \$1.43bn

- **Beauty and personal care spend per capita 2020:** \$53.6;
- **2021 estimate:** \$60.3

Source: Euromonitor International

- **Total e-commerce prestige beauty market 2020:** \$9.7bn. For the months of May-Dec 2020, sales rose +70% compared to the same period in 2019

- **E-commerce prestige sales May-Dec 2020 vs May-Dec 2019\*:**

**Skincare:** \$6.7bn, +90%

**Make-up:** \$2.2bn, +29%

**Fragrance:** \$620m, +55%

\*Source: NPD Group. Data only available from May 2019


  
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▲ Sephora recently included a C-Beauty showroom at its biannual event Sephora Day, highlighting seven Chinese beauty brands' new products

### Trending

**Strengthened by Chinese government policy to develop national brands, Chinese beauty brands are growing fast in both size and number. Digital native make-up brands like Perfect Diary and Florasis offer curated assortments, leaning heavily into national heritage sensibilities, and have made the leap into physical retail. "Local brands have a similar positioning to Korean brands with a good value/quality proposition, [but] they are trying to be more premium," comments Gentlemen Marketing Agency Founder and CEO Olivier Verot. Luxasia Country Manager for Greater China Monica Hsu says Chinese brands' tech knowledge and innovation speed gives them an edge. "The innovation is so fast, they can make exactly the same product at lower prices, and can turn it around and roll it out very fast compared to imported brands." Given the growth of Chinese brands, retailer Sephora recently included a C-Beauty showroom at its biannual event Sephora Day, a first for the beauty retailer. The showroom highlighted seven Chinese brands' new products.**

■■■ festivals, but also the greater use of beauty influencers during livestream promotions."

According to NPD, the top-10 beauty companies operating in China gained more market share in the first half of 2021 compared to the second half 2020, posing problems for smaller companies as the total share of corporations outside the top 10 declined.

With premiumization continuing in the upper-tier cities, cashed-up and educated Chinese consumers, as well as seeking the best deal, are searching for extensive information on ingredients, product and quality. And while much of this education takes place online, beauty players maintain the importance of leveraging physical retail to

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educate the consumer and grow brand loyalty.

Pola Orbis Director International Business Yoshikazu Yakote says the company has made a conscious decision to prioritize advice and services in stores over online shopping festivals. He says in-store services deliver higher average sales and higher customer satisfaction, while enabling the brands to emphasize their originality and value.

"E-commerce sales are very active, but we should not be too dependent on e-commerce. We believe establishing the relationship with consumers offline is very important to gaining repeat customers; offering a very good explanation of the product that is best suited to customers so that they can best use the product, leverage its qualities and understand its features," comments Yakote. "We are cautious on offering special offers, GWP or discounts on a particular day. By having a big investment in those activities, we are afraid it will ruin our profitability, our brand image, and have a negative impact on the overall brand relationship with our customers."

Coty's Ficarelli says customers are looking for profound product experiences, and that physical stores represent an opportunity for stronger brand engagement, which in turn helps deliver higher sales online. Over the past year, Coty has moved to focus more heavily on retail through direct management of counters for its major prestige brands and an extended BA service offer. "It's a very integrated way of working that is new versus in the past, generated by maximizing the brick-and-mortar channel with our own boutiques and the opening of online flagship stores," he says.

#### Sustainable growth?

So far, China's Covid strategy has meant the market recovered earlier than many other countries. The closed border has meant, that Chinese spending on prestige and luxury products has stayed at home. However, with little visibility over when the country might begin to ease international travel restrictions—some suggest not before 2023—questions remain over whether and to what extent current Chinese growth is artificially inflated. Analysts also point to decelerating growth rates of the e-commerce giants (Alibaba recorded lower-than-expected sales for 2020) as signs the market's euphoria has peaked. Others say that the strong growth seen since

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### China's key beauty retailers

#### Tmall

Alibaba-owned e-commerce platform Tmall and cross-border platform Tmall Global are the premier online destinations for prestige beauty brands in China. In 2020, Tmall's 11.11 Shopping Festival saw total sales rise 26% year-on-year to \$74.1bn, with Estée Lauder, L'Oréal, Lancôme the top performers in beauty, with more than Rmb100m (\$14.9m) in sales during the festival period.

#### JD.com

JD.com is China's largest online retailer and biggest overall retailer. The platform's strength is built on its dominance in household and electronic goods categories and the operation of its own nationwide logistics network. The past year has seen JD.com make a concerted push into prestige, as LVMH brands Guerlain, Givenchy, Bulgari and Benefit, among others, have opened flagship stores on the site. The company has 500 million annual active customers and booked \$114.3bn net revenue in 2020.

#### Taobao

Precursor to Tmall and often referred to as the 'wild west' of China's e-commerce landscape, the fortunes of consumer-to-consumer (C2C) marketplace Taobao (Alibaba) have improved thanks to its position as host of China's dominant livestreaming platform, Taobao Live. In fiscal 2021, Taobao Live generated \$76.3bn in GMV, while the number of daily active users on Taobao Live rose 100% in 2020, and the number of livestreamers grew 661%.

#### Watsons

**N° of doors:** 4,100+

Health and beauty retailer Watsons (A.S. Watson Group) has continued to expand its physical and digital presence in China, with 4,100 stores in more than 500 cities. The company's O+O strategy aims to increase digital touchpoints and drive consumer interaction and relationships.

#### Sephora

**N° of doors:** 230 (est.)

French perfumery chain Sephora (LVMH) operates stores in more than 70 major cities, as well as sephora.cn and storefronts on China's major e-commerce platforms. The company's omni-channel strategy has seen stores become experiential hubs, and beauty advisors embrace livestreaming.

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the pandemic is to some extent revenge spending that could ease off. "Whether the very high growth is going to continue or not, is a question. However, even when the borders open for overseas travel, I don't think the Chinese domestic market is going to slow down because there is a lot of room for additional growth," comments Yakote.

And despite appearances, the pandemic continues to cloud China's rosy economic horizon: Tough, widespread restrictions imposed by the government in recent months to curb outbreaks of the highly infectious Delta variant have led some financial analysts to question whether the country's forecast 8% growth rate for the year is achievable. In addition, the country is facing major supply-chain issues (as are other markets) due to in part to stringent lockdowns. As always, operating in China's beauty market over the coming year promises to be particularly challenging. ■



Botanical extract that mimics the Tibetan genetic adaptation to hypoxia conditions for increased oxygen supply to the skin, resulting in glowing and healthier-looking "yoga skin".

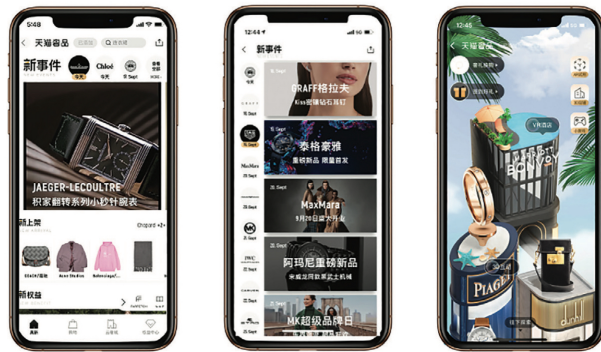
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◀ Tmall Luxury's revamped platform

## China's tech landscape

# Plate tech-tonics

An analysis of how China's tech landscape is changing and the potential rewards and risks for brands *by Sophie Douez*

Always a minefield for beauty brands, China's tech landscape is experiencing significant structural change in the wake of new tech trends, government measures and evolving digital consumer behaviors.

While Alibaba and JD.com continue to hold their positions as China's top two e-commerce pure players in terms of market share, their longtime focus on top-tier markets has allowed room for the meteoric rise of mass-market group buying consumer-to-manufacturer (C2M) platform Pinduoduo, which last year grew its active buyer base 35% year-on-year to 788 million users. Meanwhile, Tencent's WeChat and associated mini programs have cemented their importance for personal customer engagement and private brand traffic and sales. Short video platform Douyin (TikTok) launched its own e-commerce platform, while competitor Kuaishou has strengthened its position among young consumers in lower-tier cities.

"Alibaba is the first thing people associate with the market when you talk about e-commerce," comments Luxasia Country

Manager Greater China Monica Hsu. "It has been evolving for so many years that it's not only a selling platform, but encompasses the way [consumers] engage [with the brand] and do research. The flagship stores are like a brand site where you search a specific brand, and the product portfolio is normally very complete. Alibaba has become a very important entry to understand the beauty and fashion markets."

From a consumer journey standpoint, Alibaba's Tmall remains the go-to e-commerce platform for prestige beauty brands for its ability to drive traffic, generate social content and sales. The Tmall 11.11 Shopping Festival is now the major focus of brands each year for being able to drive anything in the range of 30%-50% of yearly sales. However, a recent report by consultancy Bain stated that 11.11 is getting so big that opportunities for gross merchandise value (GMV) growth are starting to dwindle. It says that most shoppers in China's tier-one and tier-two cities are already buying their fill and, even in lower-tier cities, there are not that many shoppers to recruit, nor are their pockets

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Daxue Consulting Project Leader Steffi Noel

as deep. On top of that, the business environment has shifted to favor sustainable growth and profitability, rather than a win-at-all-costs obsession with the top line, according to the consultancy.

Alibaba's commitment to sharing consumer data has been key to its success in attracting premium brands to the platform, which now operate their Tmall Flagship Stores as the premier in-country sales location.

"The flagship store acts as a base for brands to communicate directly with consumers as it can cater content offerings to individual user preferences," comments Alibaba Business Development Manager Kristina Hui. "As well as generating revenue, the flagship store also positions brands as premium and desirable to consumers. For all brands, establishing this strong brand position presents the store as a crucial touchpoint for consumers."

Second in terms of market share, JD.com nonetheless booked \$114.3bn in revenue in 2020, compared to Alibaba's \$109.5bn for the fiscal year ended March 31, 2021. Having built its business on its nationwide logistics operation and dominance of household and electronics goods categories, JD.com is today making a strong running on the prestige beauty category,

attracting brands from LVMH, Estée Lauder Companies and L'Oréal, among others. The site offers prestige brands a Luxury Express service (chauffeured hand delivery of luxury products) and, like Alibaba, the possibility of partnering on targeted product creation using data insights garnered from sales on the platform.

"JD's online platform capabilities together with its nationwide logistics network can help international beauty brands easily reach Chinese consumers even in lower-tier cities who have demonstrated a strong willingness to shop online," comments JD.com General Manager Beauty Terry Wang.

### New consumers, newer players

Newer players Douyin, Kuaishou and Pinduoduo have made their fortunes through social content (namely short video), and servicing the lower-tier cities and the mass market (in the case of the latter two). Their rapid success highlighted market segments previously neglected by the established players. Daxue Consulting Project Leader Steffi Noel notes that in response to the rise of these new players, Alibaba and JD.com have created service offers to cater to the lower tiers, including more opportunities for social content and commerce. For example, JD.com has tied up with Douyin and Kuaishou to open e-stores supported by livestreaming and launched the platform Jinxin to sell mass products via a WeChat mini program. Alibaba launched Taobao Deal for low-priced and discount products, while livestreaming app Taobao Live has developed into the country's premier livestreaming destinations.

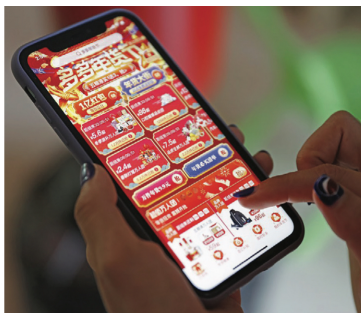
"Obviously, Pinduoduo's success arising from the untouched consumer segment by JD and Alibaba was a massive alarm to them," comments Noel. "JD and Alibaba modified their business models to reach more consumer segments and will keep adapting to the market."

While much of this activity refers to the mass market, these platforms are relevant to prestige beauty brands for their ability to reach large swaths of new and young consumers, whose spending power is rising. Prestige brands are taking notice: Earlier this year, the livestream of a Louis Vuitton fashion show on Kuaishou raked in 39 million views, nearly one third of the 131 million views the show garnered across all platforms.

"You're starting to see brands using these platforms ■■■



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▲ Newer players Douyin, Kuaishou and Pinduoduo have made their fortunes through social content and servicing lower-tier cities and the mass market

“... to reach the next tier of consumers that they haven't necessarily paid the most attention to,” comments Digital Luxury Group Partner International Client Development Iris Chan. “Pinduoduo is something brands might consider further down the line; it's not top of mind now because Kuaishou and Douyin are two platforms that have really been able to drive conversion on their platforms and have been doing pretty well in beauty, mass apparel, leisure and FMCG as well.”

### Living livestreaming

Accelerated by the pandemic, livestreaming is today undisputed as integral to e-commerce success in China. With Chinese consumers spending an average four hours and 46 minutes a day watching digital media, according to China Internet Watch, livestreaming enables interactive dialogue between KOLs and brand ambassadors that was previously absent from the e-commerce experience. Beyond entertainment, livestreaming has provided an important channel for education and building brand trust.

“First simply a marketing and sales tool, livestream is now critical to brand strategy both in terms of a brand building tool, but also in allowing an immediate feedback loop between consumers and brands, giving brands access to consumer feedback in real time,” comments Alibaba's Hui, while noting Taobao Live booked GMV of \$76.3bn for the year ending March 31.

Livestreaming is also the format that has enabled Douyin and Kuaishou to morph into ‘content commerce’ platforms. Noel notes that in 2020, Kuaishou booked around 30% of livestreaming GMV market share, and Douyin around 8% to 9%. She says Douyin's lower share reflects the fact that customers are still not accustomed to purchasing on ‘content commerce’ platforms, with two thirds of Douyin consumers having switched to other platforms to purchase product.

“Consumer engagement, the key to e-commerce success, is very easily acquired by social commerce platforms compared to e-commerce,” comments Noel. “Their (Douyin, Pinduoduo, Kuaishou) growing speed is astonishing. Once consumers are used to buying directly on Kuaishou and Douyin, and the

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Alibaba Business Development Manager Kristina Hui

purchasing habits are formed, the sales of Taobao or JD will be greatly affected. Recently, the beauty product sales on Taobao have already declined because of the impact of social commerce.”

An indication of Douyin's ambitions in the space, Chan notes, is that while the platform still enables linking to third-party sites from short video content, it has disallowed linking from its livestreams. But such moves may not do it any favors; the past year has been especially noticeable for the Chinese government's prolonged regulatory crackdown on China's tech giants.

In the wake of criticisms by Alibaba founder Jack Ma of the Chinese regulatory environment—which led to the government cancelling the IPO for Ant Financial and slapping the company with a \$28.09bn fine for anti-competitive practices—the Chinese government has reportedly forced some 30 tech companies to undergo ‘self-rectification’ processes and forced ride-sharing platform Didi to remove its app from app stores. The

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government has also announced it will enact new laws around antitrust behavior, data protection and privacy. The number of Western tech companies to leave China in recent months continues, due to regulatory pressure, continues to grow.

### Shake-up with an impact

While the shake-up is unlikely to have a major impact on the way consumers perceive and interact with the platforms, it is likely to encourage greater interaction between the platforms (or interoperability) and that will have implications for the digital strategies of beauty companies.

“There's now more indication that the different companies are having to work more together. You start to see more connections that are driving to each other. We're expecting things like Tmall to launch mini programs with the use of WeChat Pay, and on the flip side, WeChat opening up link sharing. Right now, they are quite separate, but these things will start being more complementary,” comments Chan.

Both Chan and Noel agree that in the current climate, brands

should be wary of being too dependent on one platform.

“When we see that most of the players are going towards a more online model, with 50% or more of sales happening on e-commerce, their business would be completely affected if the platforms were kicked out of the market for any reason. That's why we are now seeing emerging the opportunity for private traffic [on local brand websites and WeChat],” comments Noel, noting that legal risks also extend to the brands, with some being fined for misleading claims about their products.

With so much activity, one could be forgiven for thinking that China's online landscape is complete with a stable of companies comprehensively covering the online marketplace, DTC, and social-commerce sectors. But observers note that 2020 saw dozens of fundraising rounds for beauty e-commerce startups. The market remains fragmented. “I can't ever say in China that there's never going to be a disruptor because each one of these companies in their own right came in as such,” comments Chan. “But it seems there's more established positions and formats that exist in terms of e-commerce at this point.” ■

### Experts views on China tech

Two China experts give their views on how beauty brands should approach the online world, the evolution of the tech landscape and new e-commerce trends



L'Oréal North Asia Zone Chief Digital and Marketing Officer Hagen Wülferth

“Digital home consumption such as gaming/entertainment and O+O delivery of products has accelerated faster during the pandemic.

New digital players offer new opportunities to address consumer needs, for example, reaching more consumers and providing different

services. L'Oréal takes a brand-by-brand approach, collaborating with different tech players according to the brand's DNA and the aspiration of its consumers. Our branded flagship stores in China are a key part of our strategy to bring consumers the best experience in terms of products and services. We see growth for these stores both online and offline.

L'Oréal sees livestreaming not merely as a sales tool, but also as a platform to offer all-round services. It is a powerful tool to engage directly with consumers, providing them with offers, entertainment, education, and recommendations. It is also an opportunity to integrate beauty tech innovations, such as 5G panorama livestreaming, virtual idol, gear-free VR, virtual make-up try-on, etc.

L'Oréal will continue to invest in online channels and seize new growth points: retailtainment content, O+O service and experience augmented by tech, livestream, social commerce, customized experiences driven by big data solutions, and sustainability in e-commerce.”



Kung Fu Data CEO Josh Gardener

“Alibaba and JD already had the infrastructure to scale. Since Covid, they have started to focus on the Internet of Things, on predictive purchasing and predictive retail. AI is a huge focus. Pioneering AI into the shopping experience, predicting outcomes, consolidating the supply

chain and emphasizing real-time integrated tech in a domestic supply chain has resulted in new Chinese brands winning everywhere. The technology to scale, and creating virality around a brand or product is omniscient in China's ecosystem. Alibaba, Bytedance, RED, all the major players have ecosystems with between 400 million and one billion people spending three to five hours a day on there—it's become the attention factory. The Bytedance (Douyin) ecosystem is completely AI powered and it's gobbling up everything around it; it is becoming an alternative sales channel. The ROI on it is not great yet, but my staff expect Douyin to be around 10%-20% of sales next year. It's an exciting platform because it's a premium experience. Douyin has the potential to disrupt Tmall's control of B2C commerce. Pinduoduo is cheap at twice the price; it's the place where you're going to destroy your name. Quite simply, you must do livestream. The AI is performance driven. Its purpose is speed and growth for these platforms. The product recommendation engine is what's used by most young people in China to decide what to buy. People don't search for things, they search for brands; they look for positive signals from several influence nodes before they click 'buy now'.”

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