

The Gold Rush for China

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The Gold Rush for China, by Euromonitor International The Chinese cosmetics and toiletries industry certainly presents an attractive proposition for any business, valued at US\$7.9 billion according to Euromonitor International, it is the world's eighth largest market for the industry (Asia's 2nd largest) and registered 12% growth in 2004.

Euromonitor International's analysis of the Chinese cosmetics and toiletries market pinpoints two key factors, which have helped the industry expand in recent years, firstly, the rising affluence amongst consumers, and secondly the development of better distribution channels. Increased disposable income has meant that more consumers can afford higher value products and so, are increasingly buying into the growing 'upper mass' sector or are trading up from mass brands to premium ones. Distribution has been affected by chained retailers, such as Wal-Mart, Carrefour and Hong Kong based Sa Sa, extending their retail networks in China. Already present in the market these retailing giants have been penetrating deeper into affluent areas such as Shanghai, and at the same time, expanding into other less affluent regions and away from the first tier cities.

Recently China has leapt to the forefront of many company's strategic ambitions but a certain caution is needed to establish presence there, due to delicacies of culture and etiquette that the West is unfamiliar with. Many companies have had to adapt their traditional offering to achieve success in China; the country's vast expanse and the difference between urban and rural dwellers present logistical problems in itself. However, Chinese consumers are changing too, showing an increased pre-occupation with personal appearance and image, as well as greater interest in Western brands or norms, suggesting that China is ripe for further growth in cosmetics and toiletries.

Men's care emerges from negligence Men's grooming products enjoyed by far the best performance in cosmetics and toiletries in 2004, buoyed by growing consumer awareness of personal grooming and a plethora of new product launches backed by heavy media spend. Although its impressive growth may be somewhat distorted by its emergence from a very small sales base, trade sources are confident of its future potential. Men's skincare has only just registered sales above negligible and as yet penetration remains extremely low, certainly further growth is inevitable as awareness of the need for grooming is still on the rise. Media activity from new players launching products in the market has also helped to raise the profile and acceptance of the sector, Biotherm Homme, Nivea and Uno were all been active during the year.

Gillette saw its share of the market tumble with the emergence of the men's skin care subsector, which introduced a significant number of additional players on the market. Although Euromonitor International's research shows that overall Gillette's share dropped from 61% to 39% due to the entry of skin care manufacturers in the men's grooming sector, the company's leadership in razors and blades was strengthened by its acquisition of the Shanghai Razor Factory. Both these developments in the sector occurred as a direct result of increased consumer spending power, trading up to higher value and investing in their appearance.

An eager market for skin care Skin care is the most valuable cosmetics and toiletries sector in China, accounting for 38% of all industry sales this year according to Euromonitor International's latest research, and demonstrating significant potential for further expansion. Key to the growth of skin care was a rise in the uptake of anti-ageing or nourishing facial care products, which form part of the emerging 'upper-mass' segment. Such brands command higher prices as they adopt attributes that were once confined to premium products therefore offering consumers added value above their usual moisture products. With dynamism and high value, skin care was the sector that presented the most opportunity for brands to establish themselves in China, in addition to this the Chinese pay particular attention to their skin and often their daily regime will have up to seven steps of application. Therefore the sector presents an eager and informed consumer base which Western brands are keen to have on board, particularly when local markets are proving to be stagnant.

However, cultural differences can often make it harder for them to establish themselves. Chinese skin care draws inspiration from the abundance of herbs and plant life in the country and this is one way in which companies have tried to become closer to understanding the market. Multinationals are quick to establish partnerships with local scientists and doctors so as to increase their understanding of the medicinal properties in native herbs and plants on the skin.

Sun care sales boosted by fashion Another reality of the Chinese market is the fashion for whiter skin, so companies in skin care have had to develop products in their ranges that cater for this. Sun care products have also benefited from this as protection from the sun plays an important role in maintaining a paler skin colour, and consequently Euromonitor International has noted that the sector has seen dynamic growth of 14% for the year. In addition, raising awareness of the dangers of sun exposure on the skin has also helped sales grow.

Slow and mature sectors Deodorants on the other hand, have particularly low penetration in the Chinese market suggesting opportunity for development and raising awareness of the sector. Current consumption is largely confined to the young urban male who participates in outdoor activities, the rising purchasing power and enhanced personal hygiene amongst men is again apparent here.

Pricing pressures continued to plague hair care as key players such as Procter & Gamble (Guangzhou) Ltd and Unilever China Ltd led the pack in keeping prices down to boost sales. Meanwhile, maturing demand and near saturation offered limited growth for bath and shower products, and China's huge oral hygiene sector. These two sectors saw the slowest growth at 4% and 3% respectively.

Multinationals taking on share The improving situation in China has led companies like Procter & Gamble and L'Oréal to step up their investment in the market. Procter & Gamble's Olay brand has an established and strong presence in China,

which is maintained through an extensive product range, affordable pricing and strong national advertising, often endorsed with celebrities. In April Procter & Gamble launched China as a test market for their make up brands Max Factor and Cover Girl, and so looks set to fortify their dominant presence in the market by using the channels established on the strength of its Olay brand.

During 2004 L'Oreal made two acquisitions in the Chinese cosmetics and toiletries market, firstly with Mininurse, a well loved domestic skin care brand, and then Yue-Sai. L'Oréal will benefit from the strong and extensive distribution channels that these brands hold and is challenging Olay's dominance in the market through development of the Mininurse brand image. L'Oréal has already introduced the Garnier Naturals range under the Mininurse name, which has proved popular with young and trendy consumers and their market share, particularly in the skin care sector, is building rapidly.

Procter & Gamble and L'Oréal's increased presence in China has helped the expansion of the "upper-mass" segment in skin care too, which creates higher value sales for their products. The growth of these and other multinational companies runs in tandem with supermarket and hypermarket expansion too as the channel gives their brands access to a wider audience. With the massive advertising and marketing budgets in place to support their brands it's no wonder multinationals are driving the market forward.

How are domestic players faring? Jiangsu Longliqi Group Co Ltd has the distinction of being the leading domestic player in China's cosmetics and toiletries industry with an overall value share of almost 2% in 2004, according to Euromonitor International. The company is followed closely by Beijing San Lu Factory. Both players largely target consumers in the lower income brackets with low-end pricing, extensive distribution into the rural regions, and established brand names. Shanghai Jahwa Group Co Ltd has been one of the more active domestic companies over the review period by expanding its brand portfolio and actively sprucing up its existing brands, including GF and Liushen, through the use of celebrity endorsement and mass media advertising. In addition, Shanghai Jahwa also has introduced a greater range of brands at different price points to target a number of consumer groups.

Direct sellers take on new strategies Three of the top ten C&T brands in China are direct selling brands, namely Alticor, Avon and Mary Kay, their strength is even more impressive when you consider that a ban on direct selling was introduced to China in 1998 as a means to prevent pyramid selling. Foreign funded enterprise is permitted but only on the single layer direct sales model, therefore representatives have to be attached to a retail outlet. So direct sellers have had to open standalone retail outlets for their brands and have had to grow through opening more of them often confining them to cities. Notably they have adapted their traditional sales strategies in the light of the legislation and have still proved a formidable force in the market. In April 2005 Avon was granted permission to start testing their sales model in preparation for full legislation in direct sales and have since reduced their forecast growth for China, suggesting that the standalone model is more apt for the retail channel for the environment.

So success in China, Euromonitor International suggests, is certainly achievable and growth looks set to continue, but for many brands the market demands constant re-evaluation of traditional values that work in other regions.

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