

Research on the Opportunities for Chinese Domestic Cosmetics to Advance into High-end Products

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Abstract. In recent years, with the rapid growth of China's economy, domestic cosmetics brands have emerged; With the improvement of domestic people's living standards and the improvement of market purchasing power, China has become the third largest luxury consumer in the world, after the United States and Japan. As the entry-level industry of luxury goods, high-end cosmetics still occupy the main market by European and American international brands. This paper will take China's domestic cosmetics brands as the research object. This paper will mainly use the methods of qualitative analysis, general analysis, and case analysis, and analyze the development status of the domestic cosmetics market from the overall market and individual manufacturers through data analysis and chart analysis. SWOT analysis was used to analyze the market environment of domestic cosmetics brands of the Revised Group from macro and micro market environment and summarized the advantages and disadvantages, opportunities and hidden dangers at the present stage. It focuses on analyzing how to position domestic cosmetics brands and discusses how to carry out brand marketing around the target market. Finally, it summarizes the main factors that promote the success of brand positioning. Brand development planning is the soul of a product, especially high-end cosmetics, which determines whether a brand can gain a competitive advantage in a complex environment to strive for a larger market share. In the face of fierce competition and continuous development of the cosmetics market, domestic cosmetics only take the brand road, shape the brand image, strengthen the brand characteristics, and establish a strong competitive advantage, enterprises can continue to develop.

Keywords: China; cosmetics; markets; high-end products.

1. Introduction

1.1. Background

Since 1990, the cosmetics market share of China has been dominated by international brands, with European and American brands still occupying the dominant position in China's cosmetics market share. According to Euromonitor statistics in 2021, L'Oreal and Procter & Gamble have consistently ranked first in China's cosmetics industry in terms of market share, maintaining a market share of 10%. Other related companies, such as Est é e Lauder and Senior Tang, have a market share of 2-5%. Especially in the mid to high-end cosmetics market, it is almost monopolized by international cosmetics brands such as Europe, America, Japan, and South Korea. However, with the awakening of the awareness of domestic products among Chinese consumer groups, domestic domestic makeup brands have begun to rise. Domestic cutting-edge cosmetics brands such as Perfect Diary, Florasis, and Judydoll, Timage are gradually becoming well-known to consumers. However, the impression of domestic cosmetics brands in the minds of consumers seems to always remain in terms of "affordable substitutes for big brands", "average texture", "cheap", and so on. It seems that domestic products are inherently cheap substitutes for high-end brands in Europe and America. Whether it's emerging brands or established domestic cosmetics, it seems like they can't escape this strange cycle. However, for domestic cosmetics brands "luxury" and "classic" have always been undeveloped areas.

1.2. Related research

Zhu analyzed the evaluation of the microenvironment such as corporate resources and culture, as well as the macro background such as economic, population, political and legal environment, and

industry technology development. Zhu concluded that Miss Booker needs to increase efforts in brand culture construction, shape high-end brand image, improve service level, and gain consumer value recognition. In addition, in offline terminal channels, the primary construction of the market should be further improved.[1] Xiang and Zhou pointed out that Chinese domestic brands have opened up a gap in the mid to high-end makeup market, but also pointed out the drawbacks of limited consumer groups, taking Huaxizi as an example. Compared with international brands, domestic brands have less brand precipitation, and good products are core to improving the competitiveness of the mid to high-end market. The development and formulation of foundation products are indeed the advantages of international brands.[2]

Wang pointed out that although the Chinese cosmetics market has been flourishing, domestic cosmetics brands are consistently struggling to establish a competitive advantage in the market. To seize opportunities for survival and growth, domestic cosmetics enterprises should adhere to the core concept of traditional Chinese herbal skincare and increase the development efforts and technological investments in “healthy, green, high-quality” products, while also closely following the online trends [3]. Yang and Guang have mentioned several negative coverages concerning Chinese cosmetics in the years around 2006, including the incidence of excessive mercury in some skin-whitening products, misleading advertising, and the presence of hormones in some functional cosmetics. All of these have caused a crisis of trust among consumers, leading to a fall in purchases of domestic cosmetics at that time. They also noted that emerging domestic cosmetics brands are not yet able to compete with well-established foreign brands in the market [4]. Yan analyzed the market potential of China’s domestic cosmetics. With the development of China’s middle class and changes in consumption patterns, there could be numerous opportunities for the market. However, there would also be limitations such as insufficient funds, weak brand awareness, and high costs due to imported raw materials. To enhance core competitiveness, domestic cosmetics companies should enhance their market research and product development, recruit more technical experts, and do product segmentation [5]. Xie has elaborated on the factors influencing consumers’ purchases of cosmetics, including social factors, cultural factors, personal consumption habits, etc. She also mentioned marketing strategies for domestic brands, including doing adequate market research, studying competitors in the market, and devising effective strategies. Domestic cosmetics companies should cater to demands and create safe and healthy products while ensuring reasonable pricing [6].

Zhang and Zhou analyzed the marketing strategy of the Armani cosmetics brand and used two characteristics of Chinese citizens. They found that the Chinese market has great potential. With the rapid economic development and the increase in people's demand for luxury goods, China has become the most potential market in the luxury industry.[7] Li pointed out that the consumption habits of Chinese female college students reflect a new generation of young people's pursuit of fashion and comparison. The living standards of female college students in China have improved, and the demand for cosmetics is also increasing. Li found that female college students are the main buyers of domestic cosmetics in China. Li believes that Chinese female college students should not be influenced by marketing, but rational consumption.[8] Liu said China had a cosmetics industry as early as the Xia Dynasty. At that time, people ground skincare materials into powder and rubbed water on the face, to smooth and moisturize. However, after the Opium War, the development of cosmetics in China almost stopped. After Armani established a new brand in China, Chinese products were gradually recognized.[9] Yang said that in the past, China's cosmetics market was not very good, and foreign brands dominated Chinese cosmetics, but later with the technological development and dividends of Chinese cosmetics, Chinese cosmetics brands grew very fast. Finally become the most potential cosmetics brand country.[10]

1.3. Objective

In the second chapter, this paper will analyze the development of the domestic cosmetics market from the whole to the case. The third chapter will use the SWOT method to analyze the reasons for

the rise of domestic cosmetics and the development environment. Finally, in the fourth chapter, a summary and suggestions are made.

2. Development status of the domestic cosmetics market

2.1. Market size development

In recent years, driven by the increase in disposable income and the enhancement of aesthetic awareness among the population, domestic cosmetics consumption in China has been steadily rising. In 2023, the market size of the cosmetics industry in China is expected to reach approximately 900 billion yuan, maintaining a growth rate of 10%, and serving a population of 1.42 billion people. Specifically, it is estimated that the market size of skincare products and make-up products in China in 2023 will be around 260 billion yuan and 50 billion yuan respectively. Currently, the domestic cosmetics brands in China hold a market share of nearly 50%, as shown in Fig.1.

While these Chinese brands may face challenges competing with international brands in the high-end market, they have made significant progress in the mid to high-end segments. This is partially due to their continuous increase in investment in research and development. Also, these domestic brands are keeping up with the demands of consumers, and they are consistently introducing new and innovative products into the market. They made effective marketing and communication strategies, and they used online sales channels such as e-commerce and livestreams.

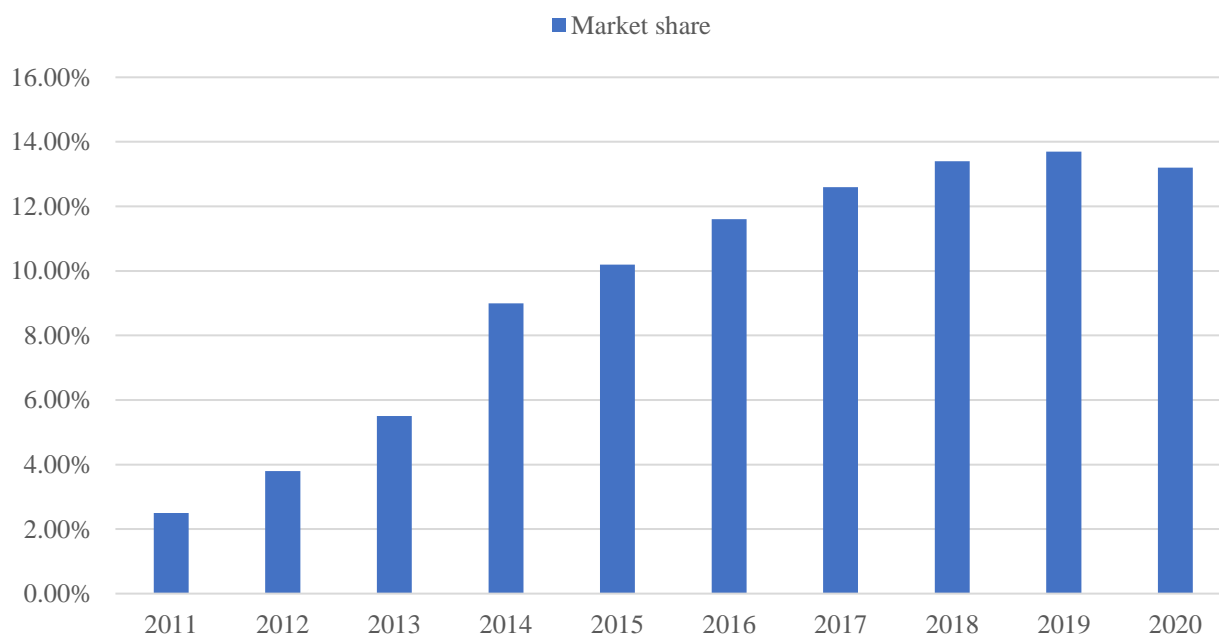


Fig. 1 2011-2020China skin-care market domestic brands TOP20 changes in market shares

2.2. Analysis from the perspective of manufacturers or products

From the perspective of domestic competition, the pattern of overseas brands dominating the intermediate and high-end markets, and domestic brands dominating the mass market is stable. In recent years, what has changed is that although classic overseas brands have a first-mover advantage, domestic brands have grown rapidly with high cost-effectiveness and new marketing models. At the same time, some emerging Japanese and Korean brands with differentiated positioning are vying for market share in the Chinese market.

In the first quarter of 2022, the growth rate of international beauty brands' performance in China slowed down but driven by the mid-year promotion activities, most beauty brands significantly improved their performance in China in the second quarter. Beauty giants will not miss the

opportunity-filled Chinese market, and strengthening the innovative investment layout in the Chinese market is still an important decision for many beauty giants.

The revenue of domestic brands in the first half of the year increased by 31.6% to 36.81% year-on-year. Bloomage Biotechnology's revenue in the first half of the year also reached 2.936 billion yuan, a year-on-year increase of 51.62%, and realized a net profit of 470 million yuan, a year-on-year increase of 30.49%. The continuously improving product quality and diversified marketing methods have enabled domestic brands to gain market recognition. Data shows that in 2022, there were approximately 700 new style beauty collection stores in China, with a high penetration rate for top brands. The total number of TOP2 brand stores accounted for 53.57% of the total number of stores in the market; Between them, THECOLORIST has opened a total of 240 stores, accounting for 34.29% of the new beauty collection stores.

According to data released by Euromonitor, the market share of the top ten brands in the Chinese skincare market in 2021 was 48.8%, with low concentration and fierce competition. However, there was a slight increase compared to 2020. Among them, Paris L'Oreal and Estee Lauder have the highest market share, with 14.96% and 8.73%, respectively, which have increased compared to 2020. Domestic skincare brands occupy two seats, namely Pechoin and JALA. With the increasing competitiveness of domestic skincare brands, the market pattern dominated by international brands in China will be broken.

3. Analysis of the development and SWOT of domestic cosmetics

3.1. Development reasons

China's cosmetics market has experienced phenomenal growth over the past few decades, emerging as one of the world's most formidable and vibrant markets for beauty products. Several factors contribute to this booming sector, from changing cultural dynamics to economic advancements and technological innovations.

First and foremost, China's rapid urbanization and increased disposable income have played pivotal roles. As China's middle class expands, there is a growing demand for luxury and high-quality products. For many, cosmetics are seen not just as a tool for beautification but also as a symbol of sophistication and modernity. Moreover, the younger generation, particularly millennials and Gen Z, has shown a keen interest in beauty and personal care products, making them primary consumers in the market.

Cultural shifts have also significantly impacted the cosmetics industry. The traditional notions of beauty are continuously evolving in China, influenced by global beauty trends, celebrity endorsements, and social media influencers. Platforms like Weibo, Douyin (TikTok's Chinese version), and Red (Xiaohongshu) have become hotbeds for beauty reviews, tutorials, and discussions. Through these platforms, Chinese consumers are exposed to a myriad of local and international beauty brands, fostering a culture that values diversity in beauty products and routines.

Furthermore, China's e-commerce platforms, such as Tmall, JD.com, and Pinduoduo, have revolutionized the way consumers purchase cosmetics. The convenience of online shopping combined with an endless array of choices, promotional deals, and detailed product reviews has made e-commerce a dominant sales channel for cosmetics in China. Notably, live-streaming e-commerce, where influencers showcase and sell products in real-time broadcasts, has become a staple in the Chinese shopping experience, driving significant sales for beauty brands.

China's homegrown beauty brands are also gaining traction. Local brands such as Perfect Diary, Jodydoll, etc.

3.2. SWOT Analysis of Chinese Domestic Cosmetic Companies

3.2.1 Strengths

Localized knowledge: Chinese cosmetic companies have a deep understanding of the local market, cultural nuances, and specific consumer preferences, enabling them to tailor their products more effectively to local needs.

Cost advantage: Leveraging local supply chains and production facilities, these companies can produce high-quality products at competitive prices.

Innovation: Many domestic brands are at the forefront of product development and ingredient innovation, integrating traditional Chinese ingredients and beauty secrets into modern formulations.

3.2.2 Weaknesses

Brand perception: Historically, Chinese consumers often regarded international brands as superior in quality. Although this perception is changing, some domestic brands still struggle to shed the image of being 'inferior' compared to their foreign counterparts.

Limited global presence: While these brands may dominate the local market, they often lack the same level of global recognition and distribution as some of the bigger international brands.

Pricing strategy and bargaining power of suppliers: The suppliers of cosmetics enterprises are mainly divided into raw material suppliers and outer packaging suppliers. The overall strength of domestic cosmetics raw materials manufacturers is weak, lagging in technology research and development ability, testing and inspection system, and cognitive ability of the cosmetics industry, and can achieve basic moisturizing functions, but the key raw materials of high-level processes are highly dependent on foreign manufacturers. Therefore, the bargaining power of domestic suppliers in China's cosmetics industry is general, but the bargaining power of foreign suppliers is strong.

3.2.3 Opportunities

Expanding middle class: As China's middle class continues to grow, there is a heightened demand for personal care and beauty products. This demographic seeks quality products at affordable prices, opening opportunities for local brands.

E-commerce and digital marketing: China's advanced digital landscape provides platforms like WeChat, Tmall, and Douyin, allowing brands to reach consumers directly, gather feedback, and quickly adjust to market demands.

Green and clean beauty: There is a growing interest in eco-friendly and clean beauty products. Leveraging China's rich biodiversity, brands can incorporate unique, natural ingredients and position themselves as clean beauty leaders.

3.2.4 Threats

Intense competition: The beauty industry in China is saturated with both local and international brands, making it a constant battle for consumer attention and loyalty.

Regulatory changes: The cosmetic industry is subject to strict regulations.

Threat of substitutes: With the development of society and technological progress, materials and services are also updated, and cosmetics are facing more and more threats of alternative products. Gradually becoming a necessity of life cosmetics, replacement threats are also increasing, such as beauty and health products, home beauty equipment, beauty salons, medical beauty hospitals, sports, and so on.

Degree of competition of competitors: Foreign brands still occupy most of the cosmetics market in our country. In the top ten cosmetics market share, there are only three domestic cosmetics companies, Shanghai Shangmei Cosmetics Co., LTD., Shanghai Baique Ling Daily Chemical Co., LTD., and Galan Group Co., LTD., accounting for less than 10%, while the top two companies are foreign brands, accounting for nearly 20%. However, in recent years, due to the rise of the post-90s consumer group, many domestic cosmetics brands have responded to the needs of the young generation promptly, catering to the tastes of young people from the aspects of brand, ingredients, marketing, design, etc., and the acceptance of domestic products is also increasing, as shown in Fig.2.

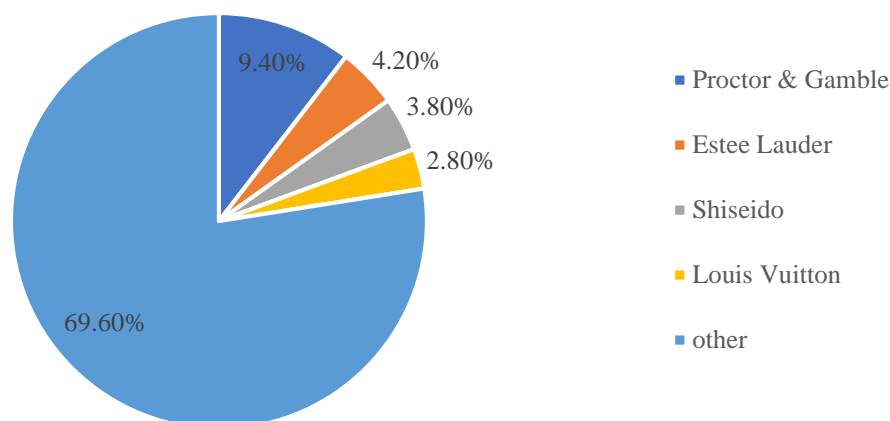


Fig. 2 Market share of Chinese cosmetics enterprises in 2019

4. Solution and Prospect

4.1. To enhance brand strength in the cosmetics industry:

a. innovation: Constantly innovate product formulations and packaging to stand out. Natural, organic, or vegan ingredients cater to the conscious consumer.

b. Transparency: List all ingredients and their purposes. Being open about sourcing and production processes builds trust.

c. Education: Offer tutorials, workshops, and content that educates consumers on the best ways to use products.

d. Engagement: Utilize social media platforms to interact with consumers, addressing queries and feedback promptly.

e. Collaborations: Partner with influencers or celebrities for limited edition lines or endorsements.

f. Sustainability: Adopt eco-friendly packaging and ethical practices. The modern consumer values environmental responsibility.

g. Personalization: Offer bespoke products or shades tailored to individual needs.

h. Quality Assurance: Regularly test products to ensure they meet industry standards. Consistent quality builds brand loyalty.

i. Diverse Representation: Feature diverse models in advertising campaigns, catering to a global audience.

j. Community Building: Establish brand loyalty programs or communities to reward repeat customers.

By integrating these strategies, brands can carve a distinctive niche, ensuring longevity and customer loyalty in the competitive cosmetics landscape.

4.2. A larger scope to expand

The cosmetics industry is a dynamic and vast domain, primarily driven by aesthetics and personal care. Sales Channels: Cosmetics are marketed through various channels, including brick-and-mortar stores such as department stores, specialty beauty retailers, and pharmacies. Online e-commerce platforms and direct-to-consumer websites have also seen substantial growth, particularly with the rise of digital influencers. Subscription box services, offering curated selections of products, have emerged as a novel sales avenue.

Business Scope: The industry encompasses a wide range of products from basic skincare like cleansers and moisturizers to color cosmetics such as lipsticks and eyeshadows. There are also niche

segments like organic or vegan products, catering to specific consumer preferences. The professional sector, comprising products used by salons and makeup artists, forms another significant segment.

Advertising and Promotion: Advertising in the cosmetics industry is immensely influential, leveraging endorsements from celebrities and influencers. Social media platforms, especially Instagram, YouTube, and TikTok, have become pivotal for brand promotions and product launches. Beauty tutorials, reviews, and influencer partnerships are standard promotional strategies.

Production Process: Production begins with research and development, where products are formulated and tested for safety and efficacy. Once a formula is finalized, raw materials are sourced and processed. The manufacturing stage involves mixing, filling, and packaging. Stringent quality control measures are implemented throughout the production line to ensure product consistency and safety. Post-production, products undergo stability and microbial testing before they reach the market.

4.3. Trends and development directions in the future of the Chinese cosmetics industry

As consumers become more knowledgeable and attentive to their skin conditions and needs, personalized customized cosmetics could become a new growth point. By meeting consumers' needs, cosmetics brands could enhance their brand loyalty. And recent years, there has been an increased willingness and acceptance among male consumers to purchase cosmetics. In 2023, the Chinese male skincare market is expected to reach a size of 16.0 billion yuan. There is significant room for growth in the Chinese male cosmetics market, and companies should seize this opportunity to expand in the male consumer market. Additionally, with consumers placing increasing emphasis on the safety and environmental friendliness of cosmetics, domestic cosmetics companies should produce green and eco-friendly products. Furthermore, with the acceleration of globalization, Chinese cosmetics brands should actively explore international markets, seeking broader avenues for growth. In the process of expanding into foreign markets, it is essential to understand the needs and habits of local consumers and provide tailored products and services.

5. Conclusion

This article delves into the specific reasons behind the remarkable growth of the cosmetics market in China. It provides a detailed analysis of the strengths, weaknesses, and opportunities of domestic cosmetics companies. The development opportunities, directions, and trends within this industry are also being examined in the context.

China's rapid urbanization, increasing income levels, cultural shifts, and the development of e-commerce platforms have contributed significantly to substantial sales figures for cosmetics brands and overall industry growth. For brands operating in this market, continuous innovation, research, and the formulation of precise marketing strategies are imperative. Looking ahead, with the acceleration of globalization, Chinese cosmetics brands are likely to explore international markets shortly.

Cosmetics are becoming an essential part of people's lives, especially for teenagers and young adults. This article can provide insights into the current state and prospects of the domestic cosmetics market in China.

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