

Study on the Development Path of Cosmetics in China

Yixuan Lin *

Singapore Institute of Management, Singapore

* Corresponding Author Email: Ylin073@mymail.sim.edu.sg

Abstract. With the improvement of economic level and the change of people's consumption concept, cosmetics have become an essential item in people's life, which led to the outbreak of the personal care industry of cosmetics and provided the soil for private business. With the development of China's economy and the improvement of consumption capacity, since the millennium, domestic cosmetics brands have begun to rise, especially as the post-90s and post-95s become the main consumers, China-Chic consumption has become a trend, Since 2016, a large number of cutting-edge brands (such as Huaxizi and Perfect Diary) have emerged to promote the comprehensive rise of domestic products, breaking the long-standing pattern of foreign brands leading the beauty and personal care market. Therefore, China's cosmetic market has made remarkable progress in recent years, and more and more Chinese brands are loved by people, thanks to the rapid development of the Internet, which has indirectly led to the live bandwagon. This paper will introduce the market scale of Chinese cosmetics in detail, as well as discuss the current situation and problems of the development of Chinese cosmetics. Finally, the paper will illustrate the development path and outlook of China's cosmetics in terms of investment in research funding and digital transformation.

Keywords: Cosmetics; Development path; Consumption level.

1. Introduction

The dramatic changes in the industry landscape that began in the first half of 2020 have seen the development of many industries stagnate, but the development of the cosmetics industry has remained steadily on the rise. Meanwhile, with the development of 5G and the Internet, as well as policy benefits, e-commerce has become a hot industry, and many Internet bloggers have begun to live stream their products. The traditional business model has been impacted, and many offline shops are facing closure or transformation, but more niche brands are also known through the Internet.

Zhao conducted an in-depth analysis and research on the domestic cosmetic industry from manufacturers, economic indicators and consumer market in 2018, and used horizontal analysis, vertical analysis, chart comparison and other methods to assess the current situation of the domestic cosmetic industry. The authors found that the domestic cosmetics industry still maintains a high growth trend, but the per capita consumption level compared with developed countries still has a large gap, and need to take the road of sustainable development according to national conditions [1]. Wu mainly described in the world economic development situation is not very optimistic, but the cosmetics in the global scope but still maintains a strong development momentum, the reason is that the number of female employment growth, as well as consumer awareness of cosmetics to change the view [2]. The author then analyses the current situation of the cosmetics industry in each country in the form of charts and tables. Li describes the history of China's development for more than 20 years: the start-up stage, the competition stage and the development stage, and then analyses the current situation and development trend of China's cosmetic industry in terms of high-end personal care products. Then, the competition pattern is described in terms of regional competition and brand competition. Finally, the author explains that China's cosmetic industry is still in its infancy in terms of substance, and that there is still a long way to go from production-based enterprises to branding, which is still far from being mature and advanced [3].

Zeng analyses the development of Korean cosmetics in the Chinese market, advantageous conditions and marketing strategies. The authors found that although the prospect of China's cosmetic market is getting better and better, the cosmetic market is half occupied by foreign brands. With the development of the national economy and the improvement of human living standards, the demand

for cosmetics is also increasing, the market competition for cosmetics is becoming more and more intense, Korean cosmetics in the market to occupy a place also brings vitality and test to the Chinese market, domestic cosmetics still have a lot of need to improve the place [4]. Wang tells the story of domestic cosmetics in recent years in the face of many international brands, despite the cheap price, it is still difficult to gain control of the local market. In order to improve the domestic cosmetics more competitive, the authors propose to improve the quality of products, traditional Chinese medicine skin care, focus on research and development, network sales and other methods to solve this problem [5]. Wang and wang introduce the contribution, promotion and facilitation of foreign investment in China's cosmetic industry after its entry into China from different perspectives, and analyse and compare the operation status of cosmetic multinational companies in China and their share of the total number of companies that invested in China, which is mainly east of China, using horizontal analysis, vertical analysis and other methods [6].

Chen et al. analysed the digital transformation forefront of the cosmetics industry mainly e-commerce platforms, beauty companies and personalised and customised toiletry segments in terms of R&D, production, sales, and regulation. Finally, the author describes that cosmetics is about to move towards a new era of digitalisation, and it is crucial to seize the opportunity [7]. Zhang talks about the current development of China's cosmetic retail industry and the new changes in retailing in the context of new retailing in terms of both the opportunities in the industry and the challenges in retailing. It promotes the development of cosmetic retailing through the launch of online mall platform, the integration of online and offline, and internet marketing [8]. Tian focuses on the rise of the new channel of live streaming with goods, the cosmetics industry's dividend period is still in place, there are still many opportunities and challenges, live streaming with goods will become a new trend, and it will be easier for brands to get closer to consumers. The author goes on to introduce two ways to buy goods, one is the brand directly to consumers, and one is through the network of well-known bloggers to explain and buy and sell [9]. Zhang describes how the online live streaming mode has quickly become a new sales model due to the epidemic, and the cosmetic retail industry has entered the era of live streaming e-commerce. The author analyses the turnover of each app, in which taobao and jitterbug became the mainstream app. under the impact of online live bandwagon, offline shops are linked to online live streaming, and the prospect of cloud sales is promising from product presentation, time cost to social attributes [10].

2. Analysis of the Chinese Cosmetics Market

2.1. Market Size

While the world's economy is not doing so well, cosmetics are still going strong globally, thanks to the growth in female employment and consumer perceptions of cosmetics. China is currently the world's second-largest consumer market for cosmetics. 2022 saw a slight downturn in cosmetic retail sales in China due to the epidemic, as shown in the chart below, with total cosmetic retail sales in the mainland down 4.5 percent year-on-year to 393.6 billion yuan (RMB), according to the National Bureau of Statistics (NBS), as shown in Table 1.

Table 1. Comparison of retail sales of cosmetics in China.

Year	Retail sales (100 million yuan)
2018	2619
2019	2992
2020	3400
2021	4026
2022	3936

The product consumption structure of cosmetics in China mainly consists of skincare products, colour cosmetics and perfumes, with skincare products accounting for the largest share of 51.9%. In the past two years, e-commerce has been developing rapidly, and more and more products are being

seen. Consumers are therefore paying more attention to the ingredients and efficacy of the products themselves, rather than focusing on the brand's popularity and blindly following the trend. Not only that, the proportion of male consumers is now on the rise, and the male-to-female ratio of cosmetic purchases has narrowed in recent years. China's men's skincare market reached about \$12 billion in 2022, a year-on-year increase of 21.2%.

2.2. Development Status and Problems of Cosmetics in China

At present, China's rapid development of cosmetics, many Chinese brands of cosmetics are more and more people find and like, such as Bakelite, Winona, Pereira, etc., these brands have been familiar to people, thanks to the development of the Internet and more and more people online shopping, so that people can quickly and conveniently understand and try these emerging brands. However, the high-end cosmetics market is still dominated by top international brands, such as GUERLAIN, CD, and CHANEL and so on. These brands have many years of history and have already established the image of high-end brands. In the mid- to high-end market, foreign brands are still very competitive, despite the competition from classic Chinese brands. As shown in the chart below, the Chinese market is currently dominated by the top international cosmetic brands, with only the 7th and 8th ranked domestic companies, which account for a very low percentage, as shown in Fig.1.

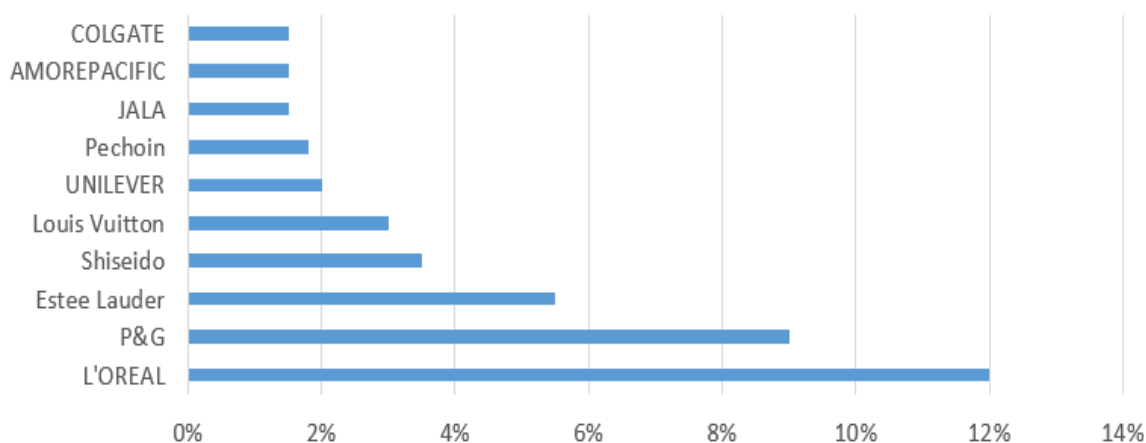


Fig 1. Market share of China's cosmetics industry in 2021 (unit: %).

Despite the cheap price of Chinese cosmetics, it is still difficult to gain control of the market in your own country for the following reasons.

2.2.1. Late start

Developed countries have been aware of make-up and skincare since almost the beginning of the 20th century, and many people are willing to spend money on cosmetics, and most of them have a higher awareness of cosmetics in their minds. As a result, cosmetic brands in developed countries were created almost at the beginning of the 20th century, with a deep brand history and high awareness. Even, their brands represent power and money in a sense. On the contrary, cosmetics in China in the 20th century, the 8th and 9th decades only gradually into the public eye, but also gradually began to have cosmetics market and be accepted by the public, the development of time is at least 50 years later than the developed countries.

2.2.2. Low level of scientific research and outdated product technology

Developed countries have been conducting in-depth research on cosmetics almost since the 20th century, and have spent a lot of time and money on raw materials and equipment, and many high-end brands already have well-established scientific research teams and laboratories, as well as their own patented projects and ace products. As the chart below shows, there is still a significant gap between Chinese cosmetics and the international giants in terms of R&D spending. Here's a comparison of R&D funding between three Chinese brands and five international brands, especially L'Oreal, which was up to \$6.63bn in 2016, as shown in Table 2.

Table 2. Comparison of the R&D amount of the top 10 brands in China's cosmetics market.

	2014A		2015A		2016A	
	R&D expenditures	Percentage	R&D expenditures	Percentage	R&D expenditures	Percentage
L'OREAL	63.0	3.4%	54.9	3.1%	58.6	3.4%
Estee Lauder	9.8	1.4%	11.1	1.7%	11.9	1.7%
AMOREPACIFIC	4.2	1.8%	4.4	1.7%	5.3	1.7%
Shiseido	8.4	1.8%	8.1	1.8%	10.5	2.1%
Shanghai Jiahua	1.4	3.1%	1.3	2.5%	1.3	2.1%
PROYA	0.4	2.1%	0.4	2.1%	0.5	2.9%
Yujiahui	0.1	3.0%	0.3	3.9%	0.4	3.2%
L'Occitane	0.85	1.04%	1.01	1.11%	1.14	1.14%

China, on the other hand, still has a lot of room for progress as cosmetics started late, research is weak and technology is limited, and many companies do not have enough money upfront to sustain research and development. Currently, many Chinese cosmetics still need to rely on raw materials imported from abroad.

3. Path Research and Prospects

3.1. More Should Be Invested in Research

As we all know, the scientific research level of Chinese cosmetics lags behind other developed countries, such as Japan and Korea, due to its late start. Therefore, more time and money need to be spent on scientific research. When a cosmetic brand has its own patented ingredients or patented formulas, the competitiveness of this brand in the market is naturally enhanced, because his products are irreplaceable. With the development of science and technology, the renewal of cosmetics is particularly fast, many cosmetics were famous 10 years ago, but gradually replaced because of the emergence of better cosmetics, for example, the Korean brand Yue Shi Feng Min (innisfree), once popular due to the Korean wave, in 2014, the R & D investment accounted for 2.51% of sales revenue. As shown in the chart below, it has opened nearly 100 shops in China, but in 2019 and 2020 turnover dropped sharply, closing 40 shops in the Chinese market alone. Therefore, as a cosmetic brand, it is necessary to invest a lot of money in R&D, as shown in Table 3.

Table 3. 2020 Earnings Summary :Revenue down 20.6% to KRW 4.4 trillion, Operating Profit down 66.6% to KRW 143 billion Revenue & Operating Profit by Division.

	2019	% of Revenun	2020	% of Revenun	YoY(%)
Revenue	5580.1	100.0	4432.2	100.0	-20.6
Domestic	3518.1	63.0	2706.4	61.1	-23.1
Cosmetics	2997.3	53.7	2210.3	49.9	-26.3
Dalybeauty&Osulloc	520.7	9.3	496.1	11.2	-4.7
Overseas	2078.4	37.2	1745.3	39.4	-16.0
Others	-16.3		-19.6		
	2019	OPM(%)	2020	OPM(%)	YoY(%)
Operating Profit	427.8	7.7	143.0	3.2	-66.6
Domestic	319.5	9.1	117.2	4.3	-63.3
Cosmetics	316.2	10.5	112.5	5.1	-64.4
Dalybeauty&Osulloc	3.3	0.6	4.6	0.9	+41.2
Overseas	104.0	5.0	17.9	1.0	-82.8
Others	4.4		8.0		
Net Profit	223.8	4.0	21.9	0.5	-90.2

3.2. Digital Transformation

3.2.1. Reduced marketing costs

With the development of the Internet, it is possible to analyse the age and purchasing habits of consumers through data and artificial intelligence, for example. So you can, for example, digitally analyse the precise push advertising to consumers, for example, consumers of different ages in the point to open the same shopping software recommended products are not the same. In addition, in the 2020 new crown epidemic driven by the rise of live with goods, the brand can digitally analyse the audience of different anchor live room crowd, and then go to find the corresponding anchor with goods and publicity, rather than blindly go to find the anchor with goods. For example, a cosmetic brand should first self-positioning, audience group if 20-30 years old, then should go to find fans are 20-30 years old beauty blogger with goods, rather than find food blogger with goods.

3.2.2. Enhance consumer service experience personalisation

Through the analysis of digital instruments, brands are able to quickly understand the needs of consumers and the problems that skin is prone to, and personalise products to consumers, for example, by using a skin tester, through which the instrument develops a set of exclusive sets that belong to the individual. Consumers will not only be able to understand the possible or potential problems of their own skin and find the right products for them, but also have a better service experience because the data from the instrument is more convincing than verbal statements and the products can also maximise their effect. Cosmetic companies will not be easy because the product is not suitable for consumers' word of mouth and affected.

Although the total consumption of cosmetics in China will decline in 2022 due to the epidemic, the development prospect is still broad, and new sales models bring more innovative opportunities for the cosmetics market, which is full of opportunities and challenges. E-commerce platforms, social media and other online channels are gradually becoming the main places for cosmetics consumption. At the same time, market competition has intensified, and it is increasingly difficult for new brands to gain a foothold in the cosmetic market. Once a product problem occurs in a cosmetic product, the brand reputation crisis will bring huge losses.

Green, environmentally friendly and sustainable are the key words in the new generation of consumers. Beauty companies should keep up with the times, improve product quality, and use environmentally friendly materials, green production processes, recycling and other ways to actively innovate healthier products. Governments and online platforms should also strengthen regulation to create a healthier and more orderly market environment.

4. Conclusion

Therefore, Chinese cosmetics are developing steadily, but there is still a lot of room for improvement compared with international brands. The share of international brands in China's cosmetic market is nearly 50 per cent, accounting for a larger proportion. In the future, if Chinese cosmetic brands want to gain a foothold in the market, they need to improve their core competitiveness, keep up with the pace of the times, strengthen research and development, and take the road of green, environmentally friendly and sustainable development. I believe that in the future, China's cosmetic development will become better and better.

Reference

- [1] Zhao Yongjie. Analysis of the Operation of China's Cosmetics Industry in 2018 [J]. Daily Chemical Science, 2019, 42 (09): 1-5.
- [2] Wu Kun. Research on the Development Strategy of China's Daily Chemical Industry, Part 2: Research on the Development Status of Various Segmented Industries, Chapter 7: Research on the Development of the Cosmetic Industry, Section 1: Overview of the World Cosmetic Market [CI/Hefei Zhonghe

Postdoctoral Think Tank Science Research Institute Co., Ltd. Research on the Development Road of China's Daily Chemical Industry, Economic Science Press, 2015:146-152, D01:10.26914/c.cnkiy.2015.001690.

- [3] Li Guodong. Interpretation of the Development Trend of China's Cosmetics Market [J]. Journal of Daily Chemical Science, 2006 (2): 26-28.
- [4] Zeng Huimin. Analysis of the Development of Korean Cosmetics in the Chinese Market [J]. Chinese Market, 2017 (17): 131-132+147.
- [5] Wang Yan, Wang Lizhong. Foreign Investment Promotes and Promotes the Development of China's Cosmetic Industry. China Detergent Industry, 2005 (04): 31-40.
- [6] Wang Jing. Analysis of the Development Path of Domestic Cosmetics in China [J]. China Business Journal, 2014 (08): 22-23.
- [7] Chen Shou, Zhao Ruili, Wang Xin, et al. The Digital Transformation of the Cosmetics Industry. China Cosmetics, 2022 (Z3): 119-123.
- [8] Zhang Yadi. Research on the Development Status of China's Cosmetic Retail Industry under the Background of New Retail, Economic Outlook of Bohai Rim, 2021 (04): 54-55.
- [9] Tian Longbin. The "disruptive power" of live streaming channels has become a "breakthrough point" in the cosmetics industry. China Quality Wanlixing, 2022 (01): 87-88.
- [10] Zhang Ying. The Epidemic Accelerates the Entry of Cosmetics Retail into Live E-commerce Channels. 1. China Cosmetics, 2020 (05): 16-20.