Analyzing the Development Status of Contemporary Chinese Cosmetics Market via Practices of Merge and Acquisition in the Luxury Industry

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Abstract. China's cosmetics industry has long been in a situation of potential problems. Especially during the COVID-19 pandemic, the cosmetics industry suffered certain setbacks, resulting in limited development. The cosmetics market in China has always been dominated by foreign products. Through research, it has been found that there are many domestic cosmetics brands, but there is a lack of experience in management and operation. This article analyzes the mergers and acquisitions and development history of international luxury goods groups, and analyzes whether there are any parts that can be used for reference to promote the development of the domestic cosmetics industry. The article found that due to the unified production and non-reliance on manual characteristics of the cosmetics industry, only a portion of experience in management and operation can be learnt. It does not support Chinese brands to develop solely according to the merger and acquisition methods of luxury goods groups.

Keywords: Luxury goods, cosmetics industry, mergers and acquisitions, management.

1. Introduction

With the development of the world's overall economic level, people's consumption level is gradually improving, and at the same time, people are paying more attention to their own maintenance and image management. As a result, people's consumption of cosmetics and skincare products is increasing rapidly. In China, many young entrepreneurs seize the opportunity of the times, and a large number of young cosmetics brands are emerging in the Chinese market. However, people have found that China's cosmetics industry is facing various problems.

In the first half of 2014, the retail revenue of cosmetics reached 88.6 billion yuan, a year-on-year increase of 10%. As of 2013, there were more than 3400 officially registered cosmetics enterprises in China, with tens of thousands of registered product brands [1]. The internal branding competition in the cosmetics industry has begun to form, with severe market segmentation and a large number of brand coverage at each consumption level. The research in the field of cosmetics shows that according to incomplete statistics, in the Chinese cosmetics market, international brands accounted for about 80% of the market share, most of which were the top 50 international brand cosmetics companies entering the Chinese market, including L'Oreal, Shiseido and Estée Lauder [2]. From this, it can be seen that China's cosmetics industry is still in an incomplete mature state, with a large number of brands and various types, accumulating competition, but generally low quality, which is likely to have negative consequences such as ineffective competition or overproduction. More importantly, people still choose foreign brands in most cases where economic conditions permit, which leads to a smaller market share for domestic cosmetics brands in China. On average, the development prospects of each brand are severely limited, resulting in the stagnation of the development of China's cosmetics industry and the inability to achieve breakthrough progress.

Related research shows that LVMH Group's revenue from 2020 to 2022 was 44.651 billion euros (approximately 335.128 billion yuan), 642.15 billion euros (approximately 481.927 billion yuan), and 79,184 million euros (approximately 594.07 billion yuan), respectively. Based on this calculation, the total revenue of LVMH in the past three years has exceeded one trillion yuan; the net profit was 4.702 billion euros (approximately 35.276 billion yuan), 12.036 billion euros (approximately 90.306 billion yuan), and 14.084 billion euros (approximately 105.702 billion yuan), with year-on-year growth rates

of -34%, 155.98%, and 17.02%, respectively. Kering Group's sales revenue in 2022 was 20.351 billion euros (approximately 152.696 billion yuan), a year-on-year increase of 15%; net profit increased by 14% year-on-year to 3.614 billion euros (approximately 27.112 billion yuan) [3]. It can be seen that the luxury goods industry abroad has always been in a good state of development. Even though there are many brands, most of them are under the unified management of the group, and the sales of each brand are also considerable.

Due to the impact of the epidemic, the global cosmetics industry's market size shrank in 2020. However, after the epidemic, various industries have begun to recover and the market has resumed normal operation. However, China's cosmetics industry still faces various problems mentioned above. The reason for this phenomenon may be due to the small scale, immature system, relatively young age, and lack of experience in management of various cosmetics companies. Nevertheless, the cosmetics and luxury goods industries in foreign countries are mature and well developed, and the reason for these may be due to the influence and decision-making of their leaders, who conducted a large number of mergers and acquisitions in the early market. These brands are examples of success driven by leadership, which may provide reference for the current situation and difficulties of the Chinese cosmetics market.

This article studies the merger and acquisitions (M&A) history and development process of global luxury goods group giants, and propose that the actions of these groups may have an impact on the development of China's cosmetics industry, providing reference significance. However, it still does not support the merger and acquisition behavior of Chinese cosmetics companies that are completely similar to the world luxury goods giant group.

2. Background Description of Cosmetic Market in China

According to Euromonitor data, Figure 1 shows that in 2020, the high-end market in China was mainly dominated by top international brands. From the graph, it can be seen that the top three brands in the rankings are L'Oreal, Estée Lauder, and Louis Vuitton, all of which are international first tier brands with market share of 18.4%, 14.4%, and 8.8%, respectively. In the high-end market, the top ten Chinese brands with market share are only Guangzhou Adolf and Yunnan Betaine, ranking seventh and ninth respectively, with market share of 3% and 2.3% [4].

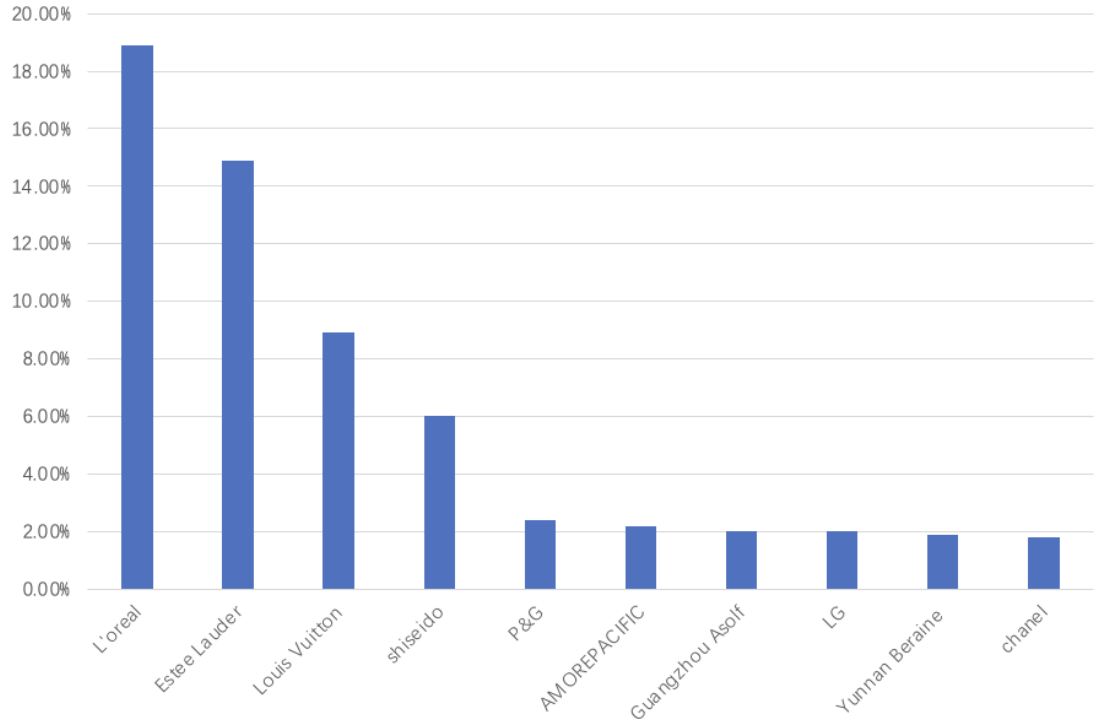


Fig. 1 Market share of high-end cosmetics brands in the Chinese cosmetics industry in 2020

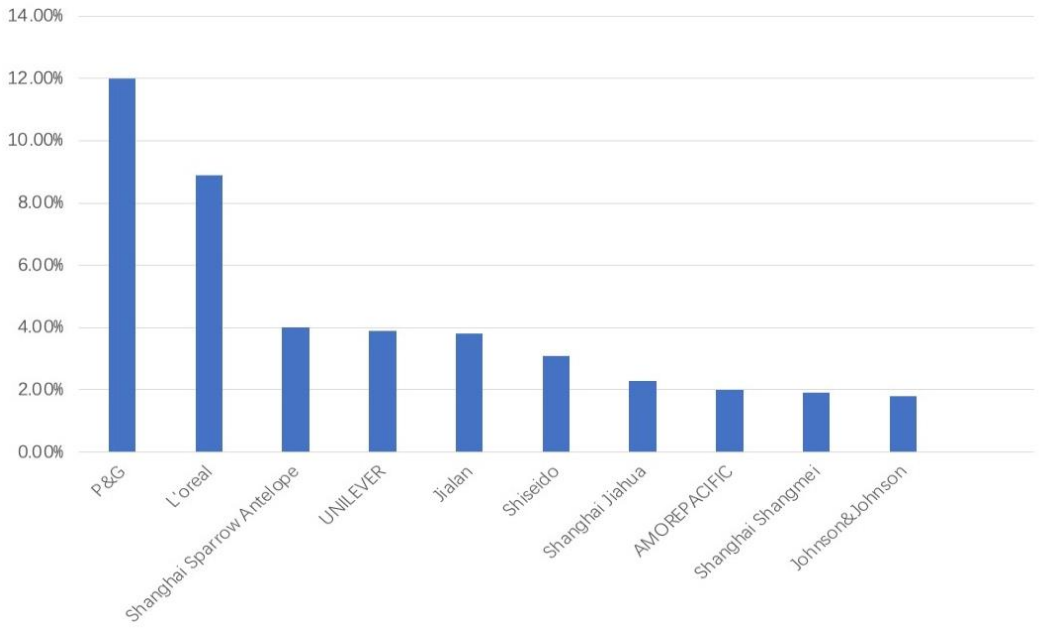


Fig. 2 Market share of popular cosmetics brands in the Chinese cosmetics industry in 2020

Similarly, Figure 2 shows that in the mass cosmetics market, the American brand Procter&Gamble holds the main market share, with a market share of 12.1%. Next is the French brand L'Oreal, accounting for approximately 8.9%. Although Chinese local brands Pechoin, Jialan Group, Shanghai Jiahua and Shanghai Shangmei have a certain market share, their share is only 3.9%, 3.7%, 2.3% and 1.9% respectively [4].

It can be seen that the cosmetics market in China is still occupied by a large number of foreign brands. As of the end of 2021, there have been over 5000 brands related to the beauty industry in China. Despite the large number of beauty brands, local Chinese brands still hold a small share in the Chinese beauty market. People still consider international brands as their first choice in most cases. Studying the evaluation of domestic beauty products by Chinese consumers can easily reveal a series of problems such as poor quality control and uneven quality. Even though the number of brands continues to grow and competition becomes increasingly fierce, the Chinese beauty market still presents a series of potential problems, such as ineffective competition and overproduction.

Nevertheless, why can international brands always maintain high turnover and occupy a large market share in the world. Mergers and acquisitions are the same behavior of several major international luxury goods giants and international cosmetics industry giants. Next, this article takes the three major international luxury goods groups, LVHM, Kering and Richemont, as an example to analyze whether mergers and acquisitions can equally affect China's beauty industry and bring changes to the current situation of China's cosmetics industry.

3. M&A in the Luxury Brands

The most obvious benefits brought by mergers and acquisitions are reflected at the management level. After each brand is acquired, under the unified management of the general group, there will be significant progress in research and development, production, and sales. Reasonable competition, mutual assistance, reasonable allocation and sharing of resources among various brands have greatly improved the profitability of the entire group. For the huge LVMH group, Bernard is a key figure in the management team. The core of Bernard's management philosophy for managing so many brands after the merger is to give full autonomy to all brand managers under the LVMH Group. This management approach is similar to the federal system of the US government, where each subordinate has a high degree of autonomy. Each brand manager not only owns a portion of the equity of the brand company with their own experience, but also receives the necessary support from the general group for each brand. This "family run" model greatly enhances the efficiency of all brands and the

entire group [5]. At present, the cosmetics industry in China is in a relatively fragmented situation, which is likely due to the short establishment time of various brands, very young leaders, and limited experience in management and operation, unable to provide suitable production and marketing methods for the entire brand. If these brands are under the same group and receive the necessary support from the general group, it may be better to stimulate the potential of each brand, skip the stages of various business model experiments, and directly form a stable business model.

Luxury goods groups often rely on the strength of having a large number of brands to engage in strategic cooperation with other enterprises after mergers and acquisitions. For example, in the last century, LVHM Group was also willing to engage in strategic cooperation with other brands that were not part of its own group, while making frantic mergers and acquisitions. The group still established a cooperative relationship despite being a competitor to Italian fashion company Prada. In 1999, the group's sales reached an unprecedented 5.6 billion francs, an increase of 23% year-on-year [6]. This is inseparable from the benefits brought by a large number of mergers and acquisitions, as well as the effects brought by a series of strategic collaborations. Therefore, in the current cosmetics market in China, if various brands can learn from the cooperation strategy of old luxury goods, it will not only bring significant benefits to the brand itself, but also bring progress to the development of the entire cosmetics industry. The current popular “co-branded” style is essentially a strategic collaboration between brands. Co-branding not only brings huge commercial selling points and attracts a large number of customers, but also allows brands to exchange advantages and share resources. This brings a large amount of sales and customer sources to the enterprise. Therefore, strategic cooperation may become a widely adopted strategy for the development of various brands.

Leaders are the soul of a company. The leadership style of a leader and the strategies and decisions formulated directly determine the development direction and prospects of an enterprise. Pinot from Kering Group in France, Arnold from LVMH Group, and Burut from Richemont Group are all outstanding entrepreneurs and leaders. In the previous two paragraphs, it can also be seen that the actions and strategies of leaders have brought huge benefits and progress to the enterprise. However, many brands in the Chinese cosmetics market have a relatively short establishment time, young leaders, lack of experience, and are even more difficult to control a large group. Therefore, it is currently impossible to achieve a mature management system like LVMH Group.

4. Discusstion on M&A in the Cosmetic Market and Luxury Brands

The most intuitive benefits brought by mergers and acquisitions to enterprises themselves were reflected in the 2008 economic crisis. The industry of the French Kering Group began in 1963, from a small company operating in the timber business to the leader of the current luxury goods empire. Kering Group owns a series of luxury brands, including Gucci, Saint Laurent, Balenciaga, Alexander McQueen, Boucheron, and Sergiorossi. In the battle for Gucci in the last century, they won beautifully and even acquired Puma, which is far from positioned as a luxury product. In the 2008 economic crisis, the global economy quickly plunged into a depression. Luxury goods are not essential goods, so they immediately become the object of consumption for people to reduce. However, Kering Group’s early deployment in sports brands, especially its acquisition of Puma. The sensitivity of group leader Henry to the global economy, which led the group to start reducing inventory, freezing salaries, and saving cash in advance when it discovered a slowdown in the global economy. These actions prevented the entire group from experiencing a significant decline in profits during the economic crisis [7]. Moreover, it is very obvious that these luxury goods groups have a larger market share and a smaller risk in economic crises. Therefore, in the case of capital integration enterprises, mergers and acquisitions enable the entire enterprise and brand to survive [8]. The current situation of China's cosmetics market is in the stage of economic recovery after the COVID-19 epidemic. During the pandemic, the global economy declined, just like the situation during the economic crisis of the year. From this perspective, China’s cosmetics industry can to some extent draw inspiration from the merger and acquisition trends of these luxury goods groups.

However, mergers and acquisitions are likely to lead to the emergence of oligopolistic enterprises in an industry. The study of monopolistic industries has always been the core of the field of industrial organization, and the benefits and disadvantages of monopolies are of great concern [9,10]. At present, there is apparent oligopoly structure in the luxury goods industry. The drawbacks of this phenomenon are also obvious. The giant group holds a large market share and has free pricing power. Higher pricing leads to losses for consumers, resulting in negative consequences of brand premiums. However, there are also certain differences between the cosmetics industry and the luxury goods industry. Luxury brands have a higher level of independence, such as their requirements for the selection of leather raw materials and handcrafted craftsmanship. However, if the cosmetics industry is highly concentrated and has the same production chain, it means large-scale production and unified quality control. In this way, the average cost decreases with the expansion of production scale, which is beneficial for consumers.

5. Conclusion

This article is dedicated to studying how to gain experience from the luxury goods industry to promote the development of China's modern cosmetics industry. There are a series of potential problems in China's cosmetics market after the COVID-19 epidemic. Chinese cosmetics brands have generally been established for a relatively short period of time, with obvious lack of experience in marketing and internal management. The entire enterprise's operational model and system are not mature, and the leaders are relatively young and lack business experience. The most obvious manifestation is that in the Chinese cosmetics market, foreign brands have always held the majority of the market share, which severely limits the development space of domestic cosmetics brands in China. However, looking back at the mature system of foreign luxury goods giants, it is clear that their excellent performance during the 2008 economic crisis. The cosmetics industry in China is likely to learn from the operation and development of the luxury goods industry abroad. The article analyzes the development history of the international luxury goods giant industry, and analyzes the reasons for the stable development and high returns of enterprises from their aspects of mergers and acquisitions and leadership. The article found that LVMH Group adopts a "family style management strategy" and seizes the opportunity to cooperate with other brands in the same industry. The article also analyzes the negative impact of oligopoly in the luxury goods industry and discusses whether the cosmetics industry will experience the same drawbacks.

Overall, there are still certain differences between the development status of China's cosmetics industry and the situation of the luxury goods industry. In short, the article supports the domestic cosmetics industry in China to learn from some actions taken by the luxury goods industry, but does not support taking a 100% identical development path. Admittedly, mergers and acquisitions bring a series of benefits such as unified management and resource sharing, but Chinese cosmetics still face problems such as insufficient funding chain, so the risks of mergers and acquisitions are very high. In addition, when luxury goods groups acquire brands, the world economy is still in the early stages of development. However now, facing the increasingly mature foreign cosmetics industry, China's internal market is experiencing a large number of mergers and acquisitions, which may have a negative impact on development. However, Chinese cosmetics enterprises are still able to observe and study the management and marketing methods of foreign luxury goods enterprises, get the essence, and find management and business experience suitable for their own development, such as finding suitable strategic partners, "co-branding" with other brands to launch products, and constantly explore and find a management model suitable for their own.

The article also has some limitations. Due to the lack of authoritative annual reports and management models from domestic cosmetics brand companies, it is difficult to analyze what business strategies and management methods are beneficial for the brand itself. Moreover, there are a large number of domestic brands, and each brand's development situation varies greatly. However, subtle changes can also have a significant impact on a company's decision-making. It is difficult for

the article to provide specific and detailed development suggestions for many brands. In the future, more research may be conducted on the development of China's cosmetics industry, such as studying the impact of consumer psychology on the overall development of the industry. The brand analyzes what kind of cosmetics consumers really want through questionnaire surveys and consumption records, to understand what consumers' needs for cosmetic quality, appearance, and practicality are, in order to formulate the brand's development direction.

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