

China's poker face

A tide of negative news from multinational and domestic companies in China – that have seen their sales drop in recent months – has triggered a wave of concern over the strength of China's consumer engine. But even with headlines of plunging sales across major multinational companies, China continues to be the world's best consumer story.

The country's share of the ¥175 billion (\$198bn) global beauty market is 23 per cent, and the competitive environment is led by foreign brands including L'Oréal, Procter & Gamble (P&G), Shiseido, and Estée Lauder, while local brands focus on the enlarging mass market.

Emerging trends in turbulent times

According to McKinsey forecasts, Chinese consumption is expected to grow by about \$6 trillion through 2030. This enormous sum is equivalent to the combined consumption growth expected in the US and western Europe over the same period, and double that of India and ASEAN economies combined. China's beauty market is expected to flourish more than the global market, with a growth rate of 14.3 per cent, up to 2025, versus 7.8 per cent globally.

In recent years, high-end beauty rose quickly, taking 51 per cent of the market in 2019 and being dominated by international

Major changes are on the way in China's beauty market, but are they pretty? **Dominique Huret** finds out

giants such as SK-II, Sisley, Guerlain, and La Mer. There was a rapid expansion of non-Chinese, Hong Kong and Taiwan retail chains such as Sephora and Sasa.

"We can clearly see several trends," explains Jonathan Siboni, chief executive of Luxuryinsight business intelligence. "First, since 2016, domestic brands have been boosted by a wave of rising consumption linked to patriotism, and during the pandemic Chinese overseas beauty consumption declined 62 per cent as business flowed back to China. Second, product quality is core, as consumers become educated and knowledgeable.

"Then, one notices a huge low-tier potential. Young consumers living in second and third-tier cities have caused significant economic development of cosmetic retailers. Not surprising is a fourth trend related to online buying, with 62 per cent of Gen Z favouring online purchases. But in the past year, the majority of the global consumers have still preferred to buy in offline stores. This ties in with an increase of 20 per cent in offline sales in 2020.



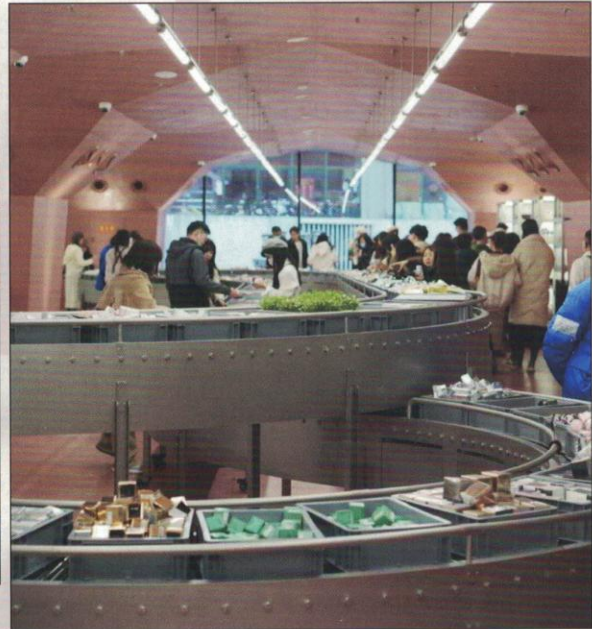
China's beauty market is outperforming the global market

"The final trend is the eagerness for experience. With new retail emerging, young consumers are eager for innovative in-store experiences and engagement via interaction."

The mushrooming of multi-brand stores

With Harmay, The Colorist, Wow, and Boom, multi-brand local stores are mushrooming and becoming popular among young people. Because of this, comprehensive and vertical e-commerce platforms are emerging.

From 2015-2020, the number of enterprises in China's packaging industry with annual revenue of ¥20 million (\$3.1m) steadily increased, and market competition is intensifying. China's Packaging



Above and right: Multi-brand local stores such as Harmay are becoming popular among young people

All photos in this article courtesy of WWPP

Federation reported in excess of 8,000 sizeable enterprises in 2020.

According to Qianzhan Industry Research Institute, China's packaging industry displays three characteristics: relatively low technical barriers to entry; a concentration in medium- and large-sized cities and economically developed areas of the eastern coast; and a shortage of R&D technicians in the industry leading to a lack of innovation capacity.

As the differences between packaging brands are often not obvious, the main form of competition in the industry is based on price.

Plastics containers represented 15.7 per cent of the revenue generated by China's packaging industry in 2020. Plastics film manufacturing reached 27.7 per cent, while paper and cardboard accounted for 28 per cent.

Three packaging converters share the majority of the cosmetics 'cake'. Firstly, Beauty Star or Shenzhen Beauty Star is a state-owned holding specialising in creative design, research and development of new materials and products, as well as packaging recycling. Beauty Star has more than 80 per cent international brand customers, including P&G, Shiseido, L'Oréal, Unilever, Estee Lauder, LVMH, Coty, and Chanel. Nearly two-thirds of the products are supplied to the domestic market and more than a third are sold to North Asia,



The Colorist is one of China's trailblazing new cosmetics retail chains

Southeast Asia, Europe, North and South America and other regions.

Another is Essel Packaging, established in July 1997 in Guangzhou as an exclusive investment of Essel Propack China for a cool \$59m. The company's main products include laminated tubes and sheets, which are widely used in oral care, cosmetics, food, pharmaceuticals and household industrial products. Main clients include The Body Shop and Longrich.

Established in 1990, ShyaHsin Packaging is the third big player. Located in Jiangsu

Province, the company has clients from Europe, the US, Japan and South Korea, including L'Oréal, Chanel, and Shiseido. In November 2017, Blackstone Group acquired the company for \$800-900m.

Young consumers are king

Since 2019, local brands have "exploded", claims Matthieu Rochette-Schneider, general manager of the Chinese creative agency Centdegrés, adding that they "found their legitimacy" while the coronavirus has acted as a catalyst.

"With an average per capita expenditure on beauty by Chinese women of \$300 a year, there is a clear demand for products packaged in a Chinese style," points out Luxurynside's Siboni. "The colour red and ancestral and historic symbols are highly appreciated. For decades, Japanese ladies were synonyms of the ideal Asian beauty and sophistication." But this is not the case in China, he adds, where fashion follows the home-grown model – literally, in many ways. "And the packaging has to follow suit."

US-based packaging firm WWP Beauty first set up its physical presence in China more than 15 years ago, and now has three regional centres. The company has observed a rise in domestic brands and increasing enquiries about sustainable packaging.

"This year, we have received more interest in sustainable packaging from smaller local Chinese brands," says WWP Beauty vice president of sales Howard Ou. "This has been partly driven by the clean beauty movement, where indie brands are not just paying attention to the formula, but are also looking to more eco-friendly packaging as well." P



The Colorist styles itself as China's first speciality store exclusively for makeup and it retails more than 6,000 stock-keeping units

More information from:

Beauty Star	beautystar.cn
Essel Packaging	epiglobal.com.cn
ShyaHsin Packaging	shyahsin.cn
WWP Beauty	wwpbeauty.com