



## Implementing Partners



# Cosmetics Market in China Carol Wang

Senior Project Manager, Healthcare and Life Sciences  
China-Britain Business Council



# Get Ready for China!

The EU SME Centre is an EU Commission funded project which helps EU SMEs prepare to do business in China by providing them with a range of information, advice, training, and support services.

The Centre is implemented by a consortium of six partners and was established in October 2010. It successfully completed its first phase in July 2014 and has now entered its second phase which will run until July 2018.



## **CBBC - Supporting UK business in and with China**

We help British and Chinese businesses and organisations work together in China, the UK and third markets around the world. With 60 years of experience, experts in 11 UK offices and 15 Chinese locations, and a diverse 1,000-strong membership, CBBC operates alongside the British Chamber of Commerce in China to support companies of all sizes and sectors, from multinationals to SMEs.

As the partner of choice for British companies working with China, CBBC delivers a range of events, tailored research and consultative services. We cooperate closely with government to highlight export opportunities for UK companies and investment opportunities for Chinese organisations.

## **Carol Wang**

**Senior Project Manager, Healthcare and Life Sciences  
China-Britain Business Council, Nanjing**

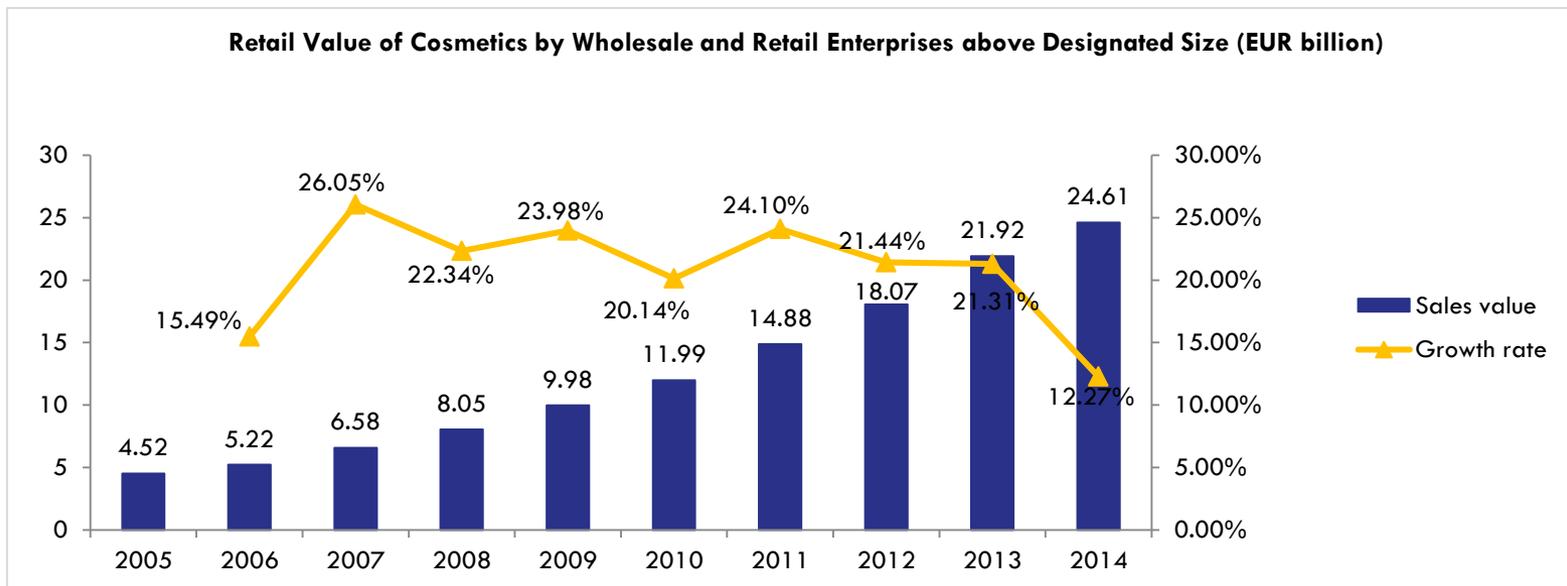
Carol Wang is based in Nanjing city; the political, economic and cultural centre of Jiangsu province. She is a key representative of the China-Britain Business Council's east China team, with leading expertise in Healthcare and Life Sciences.

Carol's role includes analysis of market intelligence, focused on the Healthcare and Life Sciences industry sectors. She works to compile comprehensive and insightful market research reports for CBBC's clients.

- Cosmetics Market Overview
- Retail Channels and Entry Models
- Main Opportunities and Challenges
- Relevant Regulations
- Suggestions
- Q&A

# 1. Cosmetics Market Overview

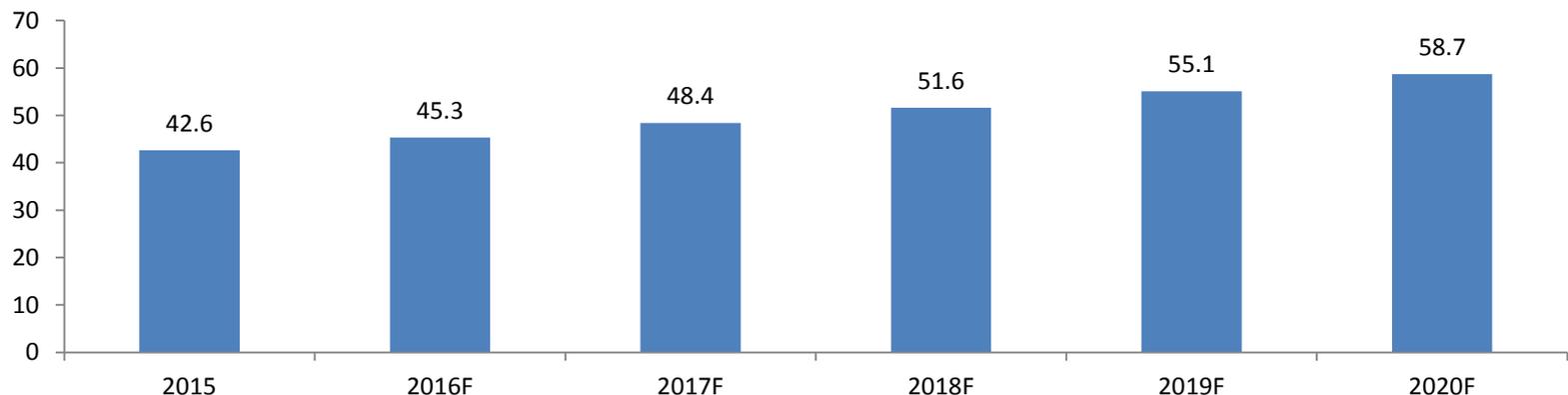
- China is the second largest consumer market for cosmetics
- Sales of skin care products reached EUR 20.44 billion in 2015, with cosmetics coming in at EUR 3.19 billion
- International brands dominate the market
- France, Korea, Japan, and the US are amongst the largest exporters



- **Whitening:** Chinese women are particularly interested in whitening and moisturising when compared to other countries/regions, especially the US and Europe. According to Baidu, China's largest search engine, 70% of cosmetic searches in China are about whitening.
- **Innovation and Upgrading:** Chinese customers tend to prefer new and innovative products, e.g. Blemish Balm (BB) and Colour Control (CC) cream products.
- **Growing Incomes:** Average incomes continue to grow and, on average, an urban employee earned EUR 7,385 in 2014.
- **Female Consumers**
- **Male Consumers**
- **Pollution**
- **The Rise of E-Commerce in China**

- China's cosmetics market is expected to become more competitive as companies jostle for market share and challenge leading brands.
- Market focus is likely to shift towards skincare products for men, infants and children.
- Euromonitor forecasts that the cosmetics market could reach EUR 58.7 billion by 2020, with an annual growth of 6.7%.

**Chinese Cosmetics Market Size Forecast  
in 2016-2020 (EUR billion)**



- **Premiumisation Remains a Key Trend:** The average income of Chinese consumers is increasing. They are therefore able to afford to pay a premium for products that are of good quality.
- **The End of the One Child Policy:** Compared to adult skincare products, parents care more about the brand and reputation of children's skincare products and often prefer natural and non-irritating products.
- **Online Retailing Continues to Grow:** On 'Singles Day' (11th November) 2016, the total volume of online transactions for beauty care products was RMB 21.24 billion (EUR 2.7 billion). Of this, international and joint overseas brands sales increased by 29.2% year-on-year.
- **Strong Demand for Innovative South Korean Cosmetic Products:** China's demand for innovative South Korean cosmetic products is reflected in the large growth of imports from South Korea.
- **Social Media Becomes an Indispensable Tool:** According to Fung Business Intelligence, which monitored 173 cosmetic brands in 2014 and 2015, approximately 77% of brands had set up WeChat accounts in 2015, compared to 46% in 2014, while all 173 brands had set up Sina Weibo accounts in 2014.
- **Product Safety is an Issue and has Created Demand for Natural Products**

# Cosmetics Key Players 1

- International cosmetic companies play a leading role in China's cosmetics market, accounting for approximately 86% of the total volume of retail sales.

English Name	Chinese Name
L'Oréal	欧莱雅
Lancôme	兰蔻
Maybelline	美宝莲
Estée Lauder	雅诗兰黛
SK-II	SK-II
Innisfree	悦诗风吟

- Well-known brands in China are listed below:

English Name	Chinese Name
Shanghai Jahwa	上海家化集团
Jiangsu Longliqi Group	江苏隆力奇集团
Arche Cosmetics	广东雅倩化妆品有限公司
Bawang International	霸王国际集团
Lafang Group	拉芳集团
Guangzhou Tobaby Cosmetics	广州丹芭碧化妆品有限公司

# Cosmetics Consumers

- **Segmentation:** International brands occupy the majority of China's cosmetics sales. Many international companies have different brands, which cover mid-to high-level, as well as low-level brands to cater to different consumer groups.
- **Females:**
  - Ages 20-30: Are often less price conscious and tend to frequently purchase cosmetics from big-name brands.
  - Ages 30-40: Primarily married and have the means to purchase higher end products.
- **Males:** Many international companies have different brands, which cover mid-to high-level, as well as low-level brands to cater to different consumer groups.

## 2. Retail Channels and Entry Models



# EUSME 2. Retail Channels & Entry Models

- Major retail channels for cosmetic products are:
  - Wholesale markets
  - Supermarkets
  - Department stores
  - Dedicated counters
  - Speciality chain stores
  - Drugstores
  - Beauty salons
  - Direct sales
  - Online sales

- Chinese consumers are increasingly purchasing products online and via apps operated by e-commerce platforms. Working with e-commerce platforms may provide opportunities for EU SMEs.

Chinese Name	English Name	Website	Product
淘宝网	Taobao	<a href="https://www.taobao.com/">https://www.taobao.com/</a>	C2C Platform that allows companies and individuals to set up stores
天猫商城	Tmall	<a href="https://www.tmall.com/">https://www.tmall.com/</a>	B2C platform serving over 500 million customers
京东网	Jingdong	<a href="http://www.jingdong.com/">http://www.jingdong.com/</a>	Online direct sales company in China
聚美优品	Jumei	<a href="http://www.jumei.com/">http://www.jumei.com/</a>	Popular cosmetics products
乐峰望	Lefeng	<a href="http://www.jumei.com/">http://www.jumei.com/</a>	Popular cosmetics products

- EU SMEs should consider working with local distribution partners to sell their products in China. Partners should:
  - Have an established reputation in the cosmetics industry
  - Have experience in delivering and managing the distribution of products within retail channels with a regional focus
  - Be familiar with working with international brands
  - Have experienced sales staff that are knowledgeable about products and are capable of delivering the brand image and messaging put forward by the brand owner.

## 3. Main Opportunities and Challenges

# 3. Opportunities and Challenges

- Main Opportunities:
  - Preference for premium brands
  - E-commerce platforms ease market entry
  - Sales of male cosmetics and baby products have increased
  - Decreased import tariffs
  - Strict technical specifications
- Main Challenges:
  - Growing popularity of Korean brands
  - Chinese brands
  - Many new e-platforms appearing
  - Increased market access issues/costs
  - Animal testing
  - Advertising

## 4. Relevant Regulations

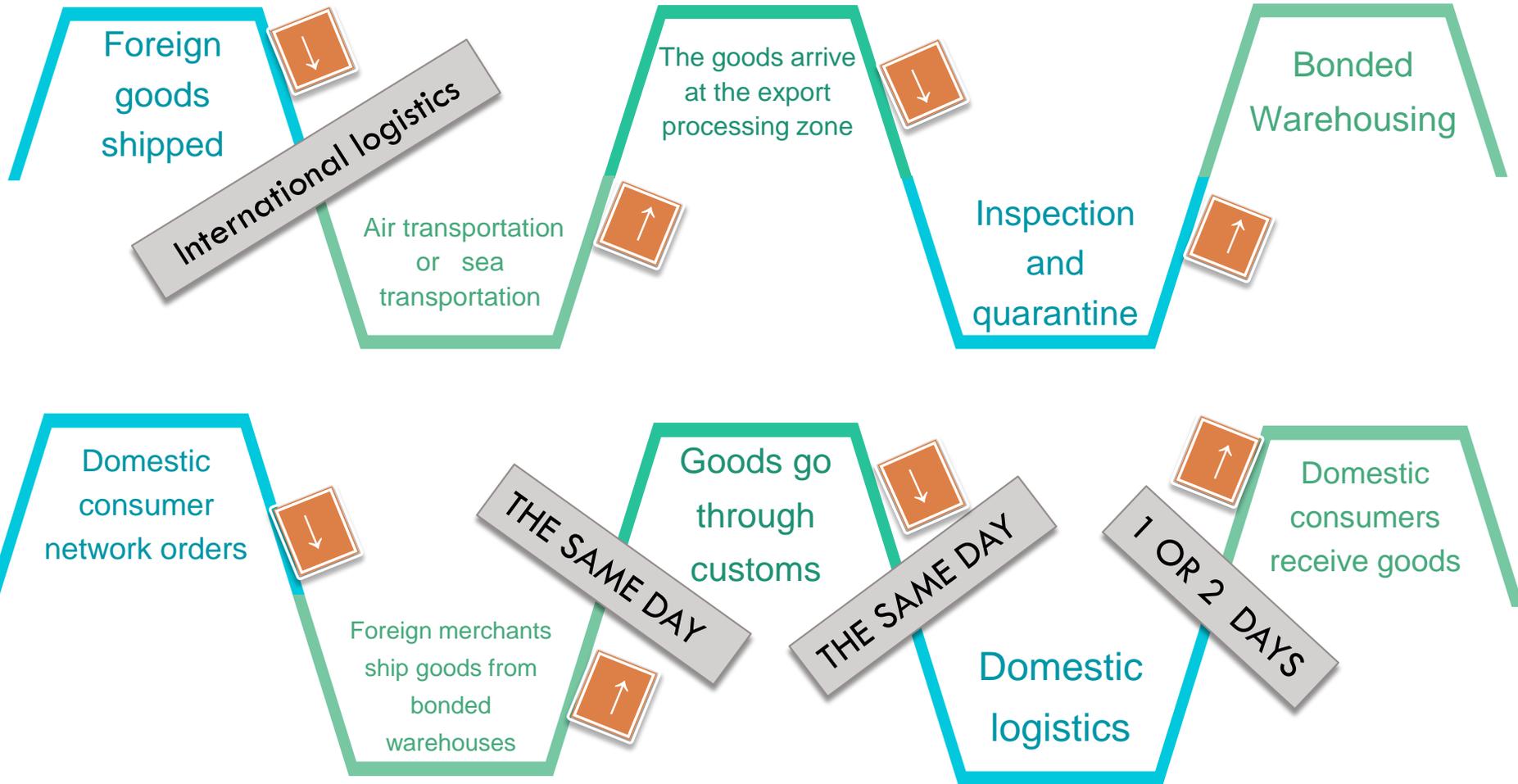
## 4. Definitions & Regulations

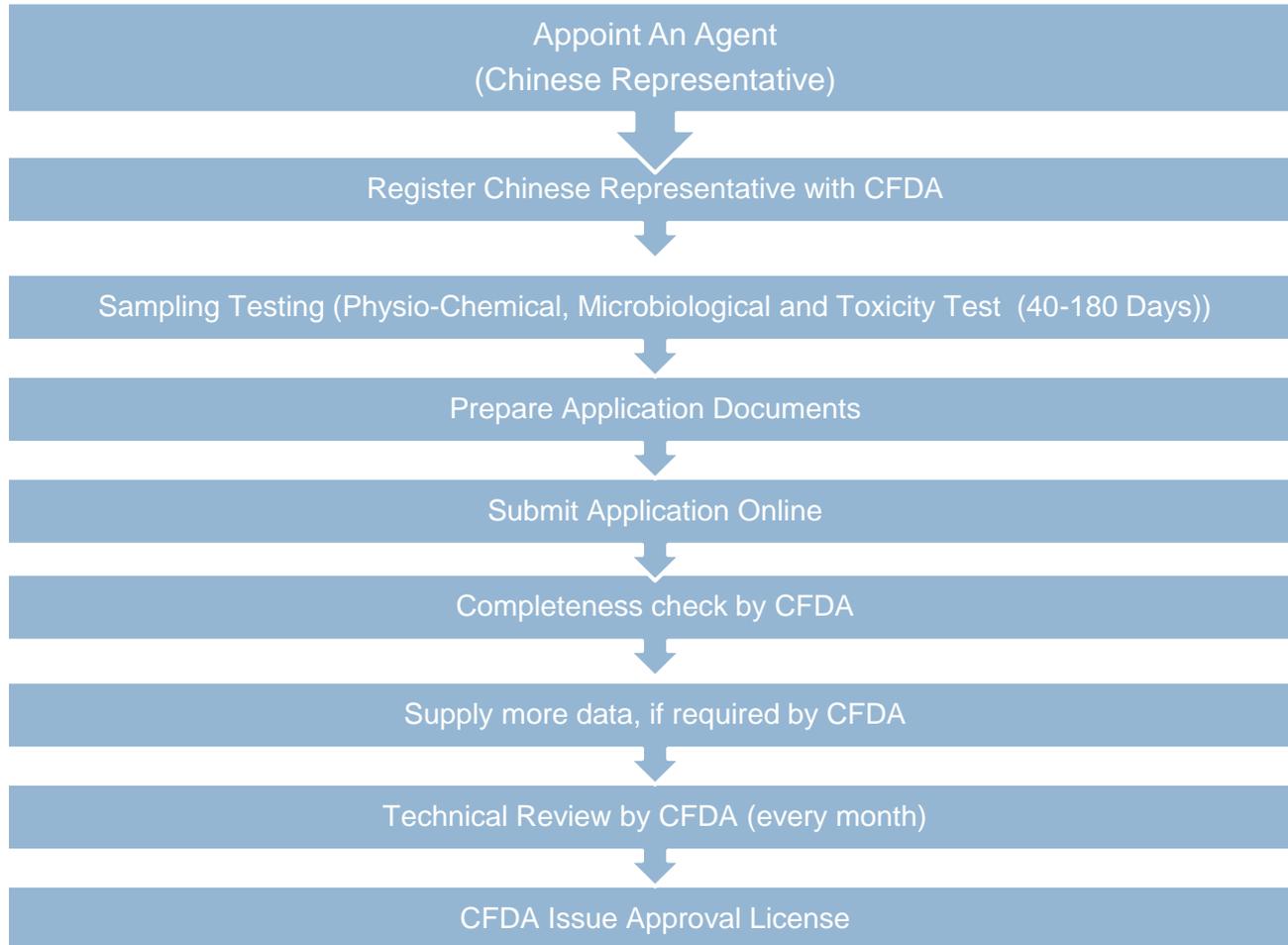
- Cosmetic products are classified into three categories, as outlined below by the China Food and Drug Administration (CFDA). These classifications dictate the licence required to export products to China.

Classification	Type of Product	Required License
Ordinary cosmetics	Hair care, nail care, skin care, perfumes and make-up, products outside the category of 'special cosmetics'.	Record-keeping certificate
Special use cosmetics	<p>Products for hair dye, perming, skin whitening, sunscreen, and other cosmetics which need special management as defined by the CFDA.</p> <p>Note: The special cosmetic catalogue is formulated and promulgated by the CFDA under the State Council.</p>	<p>Hygiene license</p> <p>(more expensive and time consuming; a technical review required)</p>
New cosmetic ingredients	New cosmetic ingredients are any ingredients introduced into the Chinese market for the first time as stipulated in Article 9 of the Regulation for the Hygiene Supervision of Cosmetics. The CFDA currently maintains an inventory of existing cosmetic ingredients in China, listing those allowed in China.	Hygiene license

- All cosmetics imported into China are required to obtain pre-market approval from the CFDA.
- The CFDA is the administrative and supervisory body for cosmetics in China, including imports, sales, and distribution.
- At the end of 2014, the CFDA removed mandatory animal testing for non-special use cosmetics produced in China; however, imported cosmetics are still required to undergo animal testing.
- The General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (AQSIQ), performs random inspections (label checks, heavy metal testing) at the port of entry.
- If imported cosmetic products pass inspection, they may enter into China and be sold (if premarket approval has already been granted).
- Cross-border e-commerce is an effective channel for EU cosmetic companies to access the Chinese market for the first time. Relevant tax policies are being changed by the Chinese government, however the current rules will remain in place until the end of 2018. Under the current cross-border e-commerce regulatory framework, products shipped directly from outside of China to the end-consumer are not required to undergo CFDA approval, negating the need for animal testing. This has made cross-border platforms an attractive route to market for established international brands as well as emerging smaller brands.
- Animal Testing is still implemented on cosmetics by the CFDA; this has therefore prevented some international brands from entering the Chinese market.

# Cross Border E-Commerce Process





- At present, the tax on imported goods is divided into tariffs, 17% VAT tax, and consumption tax. Import tariffs vary according to different products; for example:
  - The tariff on perfume and make-up products is 10%.
  - The tariff on skin care products is 2%.
 (As of 1<sup>st</sup> June 2015, the tariff on imported skin care products was reduced from 5% to 2%)

## 5. Suggestions

## 5. Suggestions

- In-depth research and market visits
- Imported cosmetics registration in China
- Market entry route (find a local partner)
- Protecting IP
- Chinese name
- Product Labelling
- Pricing
- Building Brand Awareness

## 6. Q&A



[www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)



Follow Us on WeChat



Knowledge  
centre



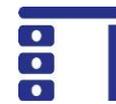
Advice  
Centre



Training  
Centre



SME  
Advocacy  
Platform



Hot-desking  
& Meeting  
Rooms