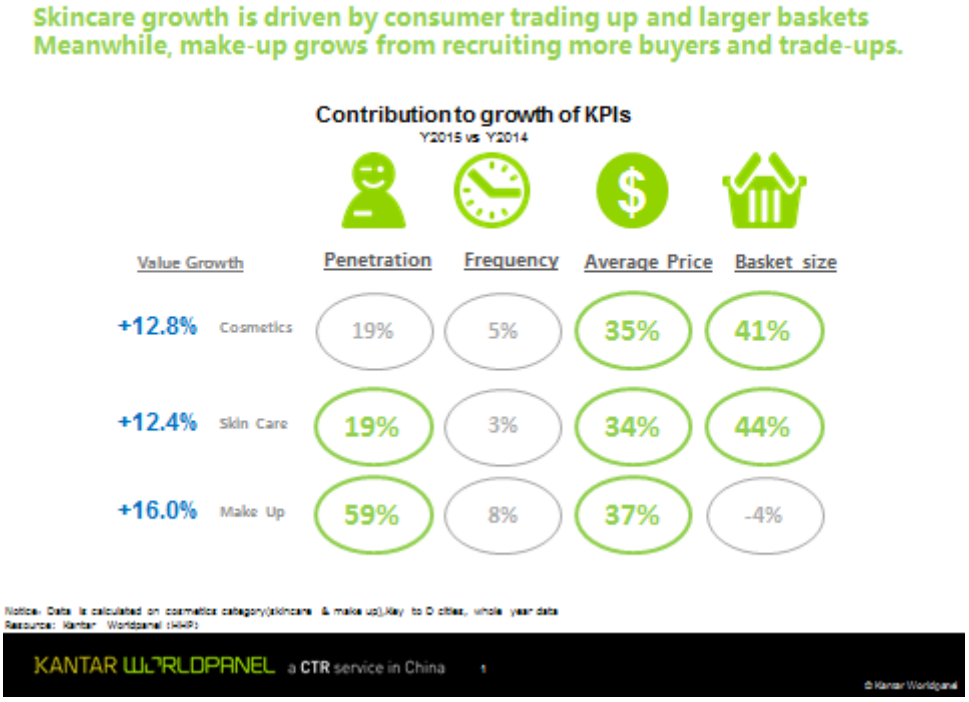
The rise of Chinese brands--- Cosmetics market trend and development in China

With the China economy already in the slow, sustainable growth pattern dubbed the “New Normal”, the fast moving consumer goods (FMCG) market has followed suit with a marked slowdown. According to data from Kantar Worldpanel, the FMCG market growth was 3.5% in 2015 – the lowest growth seen in a generation. By contrast, the cosmetics market enjoyed impressive growth of 12.8% - justifying further investigation. Jason Yu, General Manager of Kantar Worldpanel China, recently shared a report revealing the cosmetics market trend and development in China – the highlights of which are detailed below.

Premiumisation Accelerates - The High-Speed Growth Of Cosmetics Market

According to the report, the high-speed growth of the cosmetics market was mainly driven by upgraded purchasing, meaning that increasingly consumers are willing to pay higher prices for more premium products or buying a wider range of products. Within the skincare market, masstige brands are the key contributor to this premiumisation trend. Across categories (facial skincare, hand & body care) and city tiers consumers tend to choose products with higher prices. In the makeup market, an enlarged buyer base and premiumisation are two key drivers to the market growth. Data shows that only 45 urban families out of every 100 have purchased makeup products in 2015, demonstrating a huge market potential for makeup manufacturers in China. Furthermore, the trend of “nude look” has successfully attracted consumers’ attention, pushing up the growth of BB cream, lipstick, eyeliner, eyebrow and cushion products.



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Chinese brands are playing the pivotal role in this market growth. In the past 3 years, international brands growth has stagnated and their market share has been squeezed from all

fronts - even in the upper city tiers where they were previously dominant. Chinese brands occupied half the seats among the top ten cosmetics players in 2015 in contrast to two seats in 2013. Here we summarize the five forces behind Chinese brands' fast growth:

1. **"Masstige-Premiumisation"：** Massitge brands, brands between mass and prestige in price positioning, grew 8% in value in 2015, with 70% of the value growth contributed by Chinese brands.

2. **Natural + High-Tech:** Chinese brands have evolved from single emphasis, i.e. herbal or natural concepts, to multi-emphases blending the "high-tech" elements into product communication - promoting a more effective solution for enhanced skincare results.

3. **The Fashion Of Hydration：** The hydration benefit in skincare products has become a fashion nowadays; products with hydration emphasis took up 27% volume amongst total facial cream in 2015, up from 21% two years ago. However, Chinese brands, i.e. Chando, are the critical drivers in this fashion.

4. **Youth – The Future & The Present**: Chinese brands have particular popularity amongst post-90s shoppers and further energize the total category, engaging more young consumers in the buying of cosmetics products.

5. **Mask Fever**: The mask fever phenomenon has now been around for several years. In 2015, 48% of Chinese urban households purchased a facial mask, higher than South Korea and Taiwan where the skincare market is normally more mature. Chinese brands are the major force in this rapid development.

Chinese Brands - The Engine of Channel Development

From the perspective of channel development, consumers are moving gradually from traditional retailing channels to modern trade and now even to "post-modern trade channels" such as e-commerce and convenience store. According to the report, traffic in modern trade channels is seeing flat growth or even declining slightly while traffic continues to increase in e-commerce and small retailing formats. If we sum up the value share of the top 10 cosmetics players, we see that top international brands grow stagnantly in spite of their dominance in modern trade channels. While Chinese brands show substantial growth in department store, supermarkets and hypermarkets. Enhancing cooperation with Chinese brands could be an opportunity for retailers to achieve growth in the current competitive environment.

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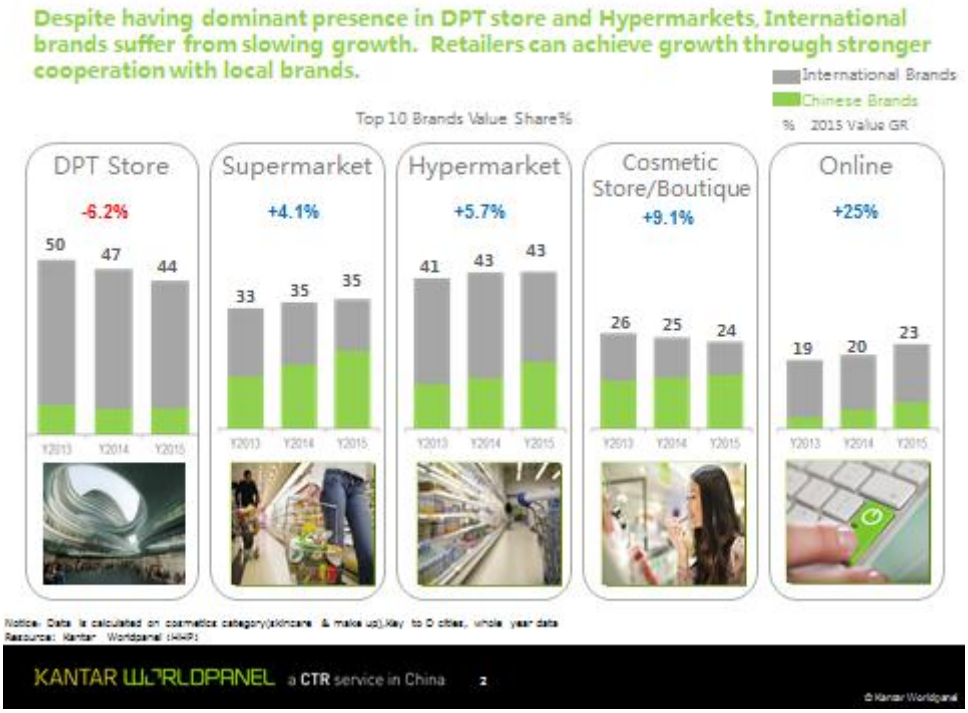

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According to ShopperScape® from Kantar Retail, spending less money and feeling like a good deal have become less important when consumers make purchases. Hence, “stress-free shopping”, “having fun”, “high quality products”, “discovery of new brands or products” and “retailer and brands reflecting my value” have increased their importance noticeably in 2015 compared to last year. This illustrates that the first priority for brick-and-mortar retailers is to provide a premium service which can differentiate themselves from others and develop their competitive advantage.

Apart from convenient, stress-free and premium service there are three other opportunities to highlight. Utilizing technology to provide consumers information or navigation at spot, engaging consumers through placing fun and exciting activities in shopping environment, and facilitating convenient shopping process through introducing mobile payment could all work for brick-and-mortar retailers.

3 take-outs and recommendations from Kantar Worldpanel

1. **Premiumisation** remains strong in Chinese FMCG market; **Cosmetics** continues to have potential to further accelerate this trend.
2. Chinese brands become more dominant in the market through **masstige offerings**, **attracting young shoppers** and **creating fashionable trends**. **Retailers can enhance their cooperation with Chinese brands to capture these trends**.
3. Further enhance **consumers’ shopping experience**. Providing premium brands and services is crucial for retailers in order to attract more consumers and achieve growth. Instinctual route design, feasible brand/product portfolio, the correct store size and an innovative store design satisfying entertainment needs – are set to be key trends for retailers tomorrow.