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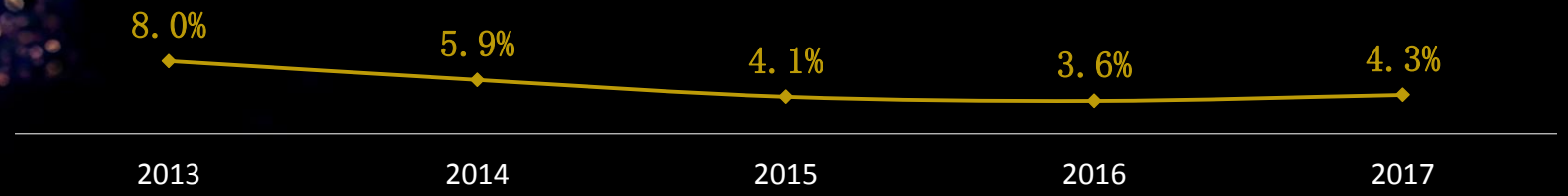
TMALL BEAUTY AWARDS

Navigate the Beauty Premiumization Route in China

Jason Yu

FMCG in 2017 reported noticeable recovery

Total FMCG, all channels, sales value growth



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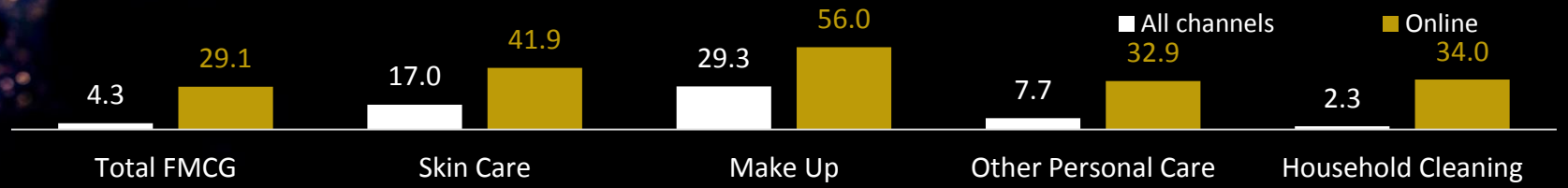
E-commerce led growth, with skin care/make up key growth engine

National, all channels vs. online，value growth rate in 2017



*Other personal care excludes skin care products and make up

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E-commerce delivered strong incremental sales and won young consumers

National, skin care/make up, personal care and household cleaning products, online, 2017

12 million

Newly recruited households online

64%

% value accounted for by incrementals

No.1

Tmall ranked No1. in recruiting young buyers (aged under 25) in cosmetics amongst all B2C sites

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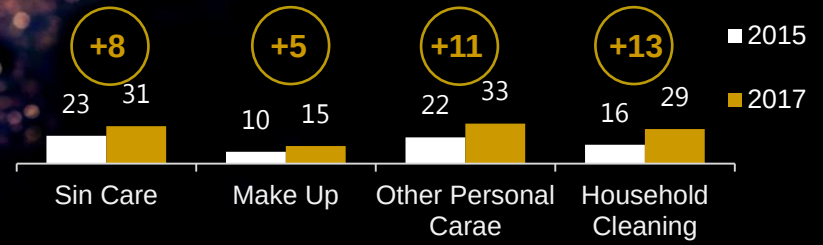
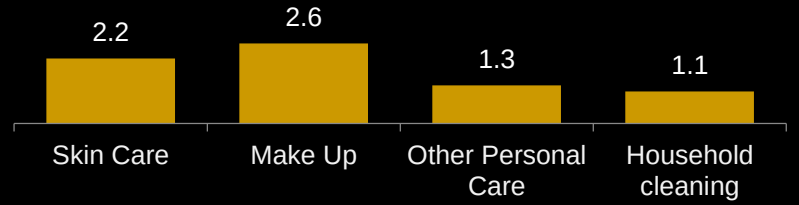
More omni-channel buyers and they spend more!

Consumers who bought both online and offline



2017 spend per buyer Index
All channel buyers vs. Exclusive offline buyers



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Growth in cosmetics driven by more regime purchases

53% 2017 value contribution by more volume bought

35% of cosmetics consumers expanded their care routines

Opportunities in new sectors

- ★ Essence
- ★ Eye cream
- ★ Remover
- ★ Sun protection
- ★ Lipstick
- ★ Eye shadow
- ★ Concealer
- ★ Pre Make up

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Premiumisation remained main driver for other personal care and cleaning products

54%

value contribution by price increase (2017, Other Personal Care, Household cleaning)

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Emerging sectors

- ★ Mouth wash, electric toothbrush
- ★ Liquid sanitary protection
- ★ Laundry liquid tabs
- ★ Kitchen towel, unbleached paper
- ★ Washing machine slot cleaning

Electric toothbrush
63% value growth YOY

Whisper Liquid
163% value growth YOY

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Millennials Are Shaping the Beauty Market

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Middle class and young consumers remain critical to win the beauty market

14%
middle class families'* spent 14% on FMCG than average families

54%
value contribution by middle class consumers online

50%
value contribution of cosmetics by females aged between 15 and 29

59%
value contribution of cosmetics by females aged between 15 and 29 online

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*Middle class families are defined as those with monthly income over RMB 9,000

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Young families in lower tier cities and West/North driving demand

All channels, total cosmetics, personal care and household cleaning, young households* , 2017 value growth %

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*Young households refer to the single, young couples and households with kids

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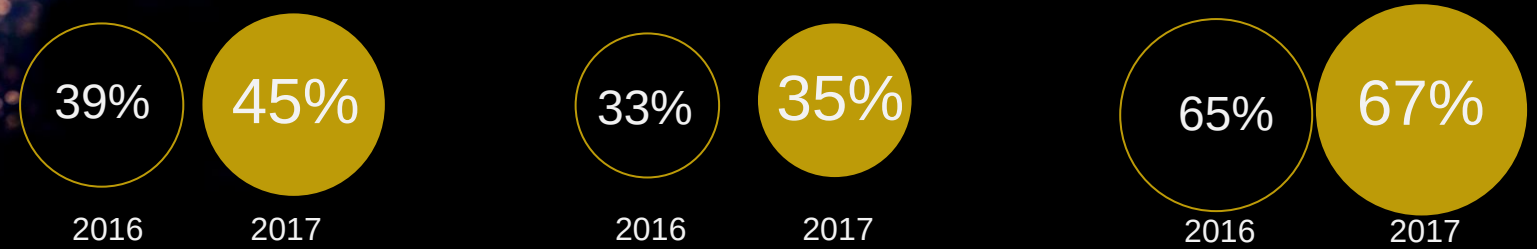
More market fragmented presents opportunities for emerging players

- Value share of small shampoo brands
- Value share of small toothpaste brands
- Value share of small skin care brands



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*Shampoo brands with penetration over 5% are classified as big brands while the rest were classified as small brands
Top 10 toothpaste brands were classified as big brands while the rest were classified as small brands
Top 20 skin care brands were classified as big brands while the rest were classified as small brands

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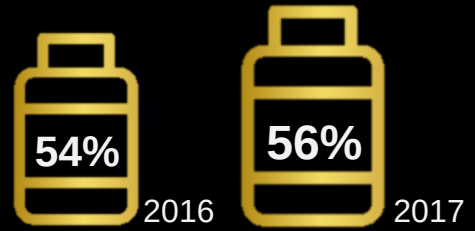
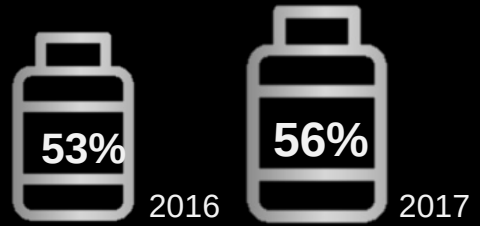
Chinese brands reported stronger growth in skin care while make up market was still more dominated by global brands

Value share of Chinese brands, Skin Care



Value share of International brands, Make Up



Domestic | **International**

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The Underlying Shift in Consumer Aspirations

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Three common themes globally and in China

Healthy Natural

- Anti-pollution, protection
- Natural ingredients
- Buy local

Convenient Effective

- Easy to use/convenience
- Efficacy, immediate remedy

Pleasure Personal

- Happiness & fun
- More personalized choice

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Natural and healthy proposition winning formula

28%
"natural products are more efficient "

45%
"prefer natural products "

Sun block and make-up removals grew faster as consumers care more about protection

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Consumers need products fixing their problems with high efficacy

easier to use

high quality and safe

time-saving

cheap and prompt delivery

Eyebrow cream

Toning cream

68% value growth in 2017

Sun protection spray

66% value growth in 2017

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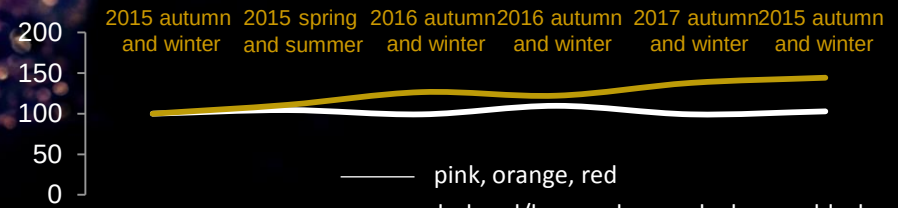
More personalized product choices

Lipstick user index by season



pink, orange, red

dark red/burgundy, purple, brown, black

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*Index of user number set 2015 autumn and winter as the benchmark. If the index overtakes 100, it means consumers prefer such color than before.

Colgate
Heart-shaped toothpaste in box confession box

La Mer
Silver tray carved with personalized messages

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Where Are the Next Waves?

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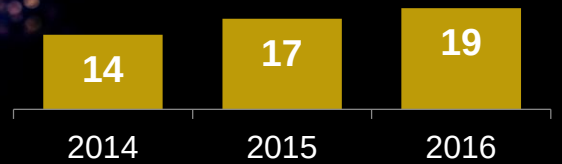
Healthy and natural proposition is here to stay

% Korean consumers bought natural shampoo



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Organic and additive free not just stay as concept

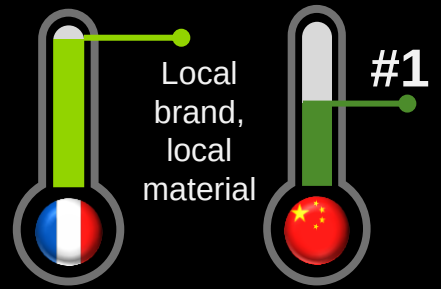
ewg

plants& organic products

ECO CERT

The rise of French brands

Pechoin – leading skin care brand in China



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Products satisfying inner beauty and home usage will prevail

9%

consumers purchased beauty related health supplements

27%

consumers used beauty kits
From Sept 2016 to Feb 2017

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Crossover offers adding new dynamics

Crossover

Pechoin launched a jewelry style cosmetic box in associatioin with designers for Forbidden City

Endorsement

Karry Wang became cosmetic and perfume ambassador for Lancome

Celebrity Brands

Beauty products recommended by Fan Bingbing via live webcast

KOLS

Kylie Jenner releases cosmetic brands under her own name

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New purchase occasions triggered by high tech

Sephora

Consumers trying different makeup via Virtual Artist APP

Shiseido

Optune providing customized skin care formulation based on IOT and AI

Marie Dalgar

Unmanned lipstick vending machine

Tmall

Smart dressing room in shopping centers are new attractions

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To make further headways, brands will have to capture three key words

Consumer-centric

- Middle class and young consumers
- Healthy & natural
- Convenience and efficacy
- Pleasure and personalization

Premiumiumi-zation

- Constant innovation
- Emerging regimes/routines
- Technology empowerment
- Place of origin

New Retail

- New occasions
- Crossover
- KOL/social media
- Further integration between offline and online

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Thank you!

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