

Current Status of Color Cosmetic Sector in China

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World of Chemistry @ NYSCC Suppliers' Day
May 2022

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Chapter 1

中国彩妆行业背景

Chinese Makeup Industry Background

■ History of Chinese Makeup Sector

01

Late 1970s
– 1990s

Modernization of Cosmetics Production

Domestic brands started to imitate the products and operations of EU and USA companies. Then-established (but old-fashioned) Chinese local makeup brands started their long growth stagnation

02

Late 1990s
-2010

Emergence of Next Gen Brands

Inspired by the success of Maybelline and other major international brands (entered China around late 90's), the new generation of domestic makeup brands such as Carslan and Flamingo were founded.

03

2010-
2016

Searching Self-Identity

With market-size expansion, K-Beauty influence, and emerging mobile sales channels, brands like Carslan Marie Dalgat and CHIOTURE switched focus from brick-mortar stores to mobile opportunities

04

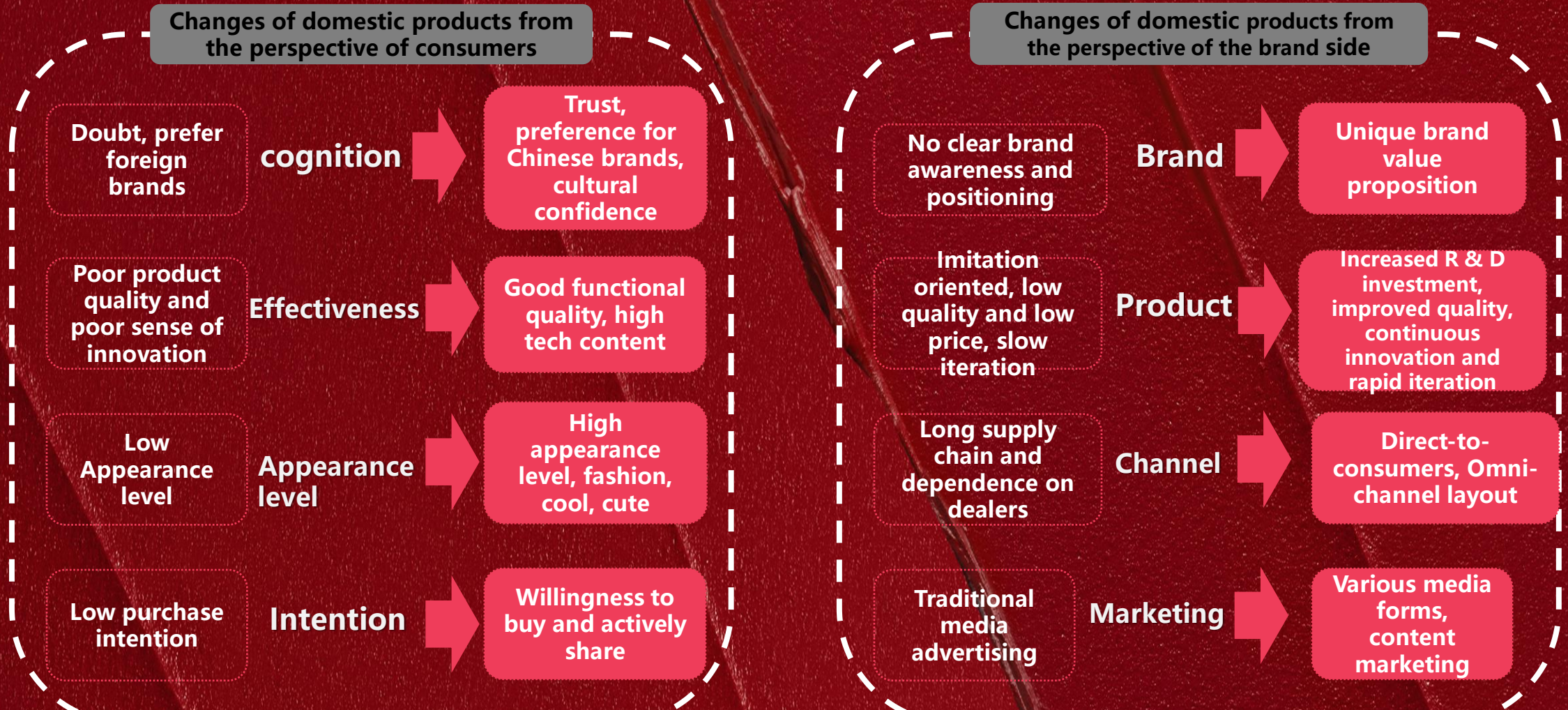
2017-
present

Domestic Brand Boom

Domestic brand booming led by Indie brands, such as Perfect Diary and Florasis. They are competing meaningfully with major international brands, with unique brand identities and innovative marketing & sales mobile channels

■ Characteristics of Domestic Cosmetics Brands

Digital-driven domestic brands, upgrade and innovate in the dimensions of brand, product, channel, and marketing, and build brand value centered on consumers; Consumers prefer to buy domestic products as they think domestic products are more cost-effective with high appearance value; digital upgrading drives domestic brands to break barriers with consumers, offer high-quality products and services, and convey brand value propositions to consumers with the help of abundant new media platforms.

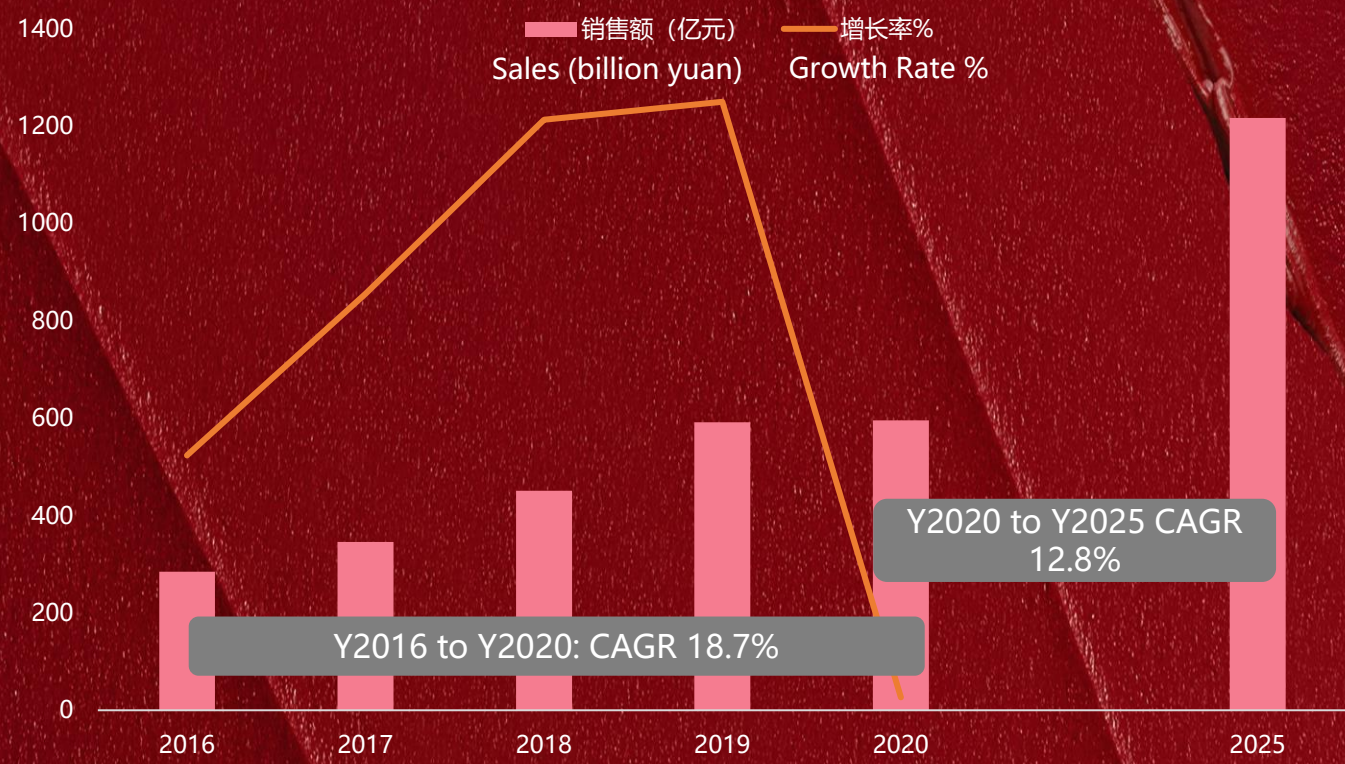


■ Scale and Characteristics of China's Cosmetics Market

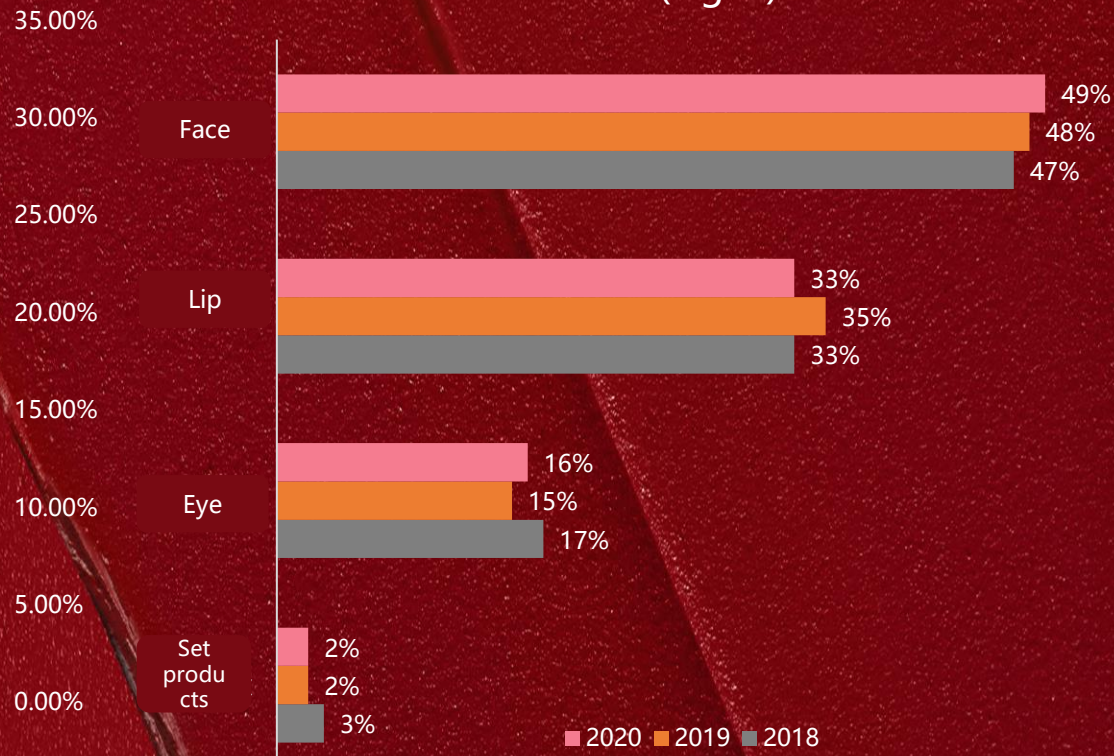
Figure 1: China's makeup industry is in a stage of rapid growth, from 28.4 billion yuan to 59.6 billion yuan from Y2016 to Y2020, with a five-year compound growth rate of 18.7%; Despite the epidemic situation in 2020, it still maintained a growth rate of 0.6%. It is expected that the cosmetics market will exceed 100 billion yuan by 2025, and the compound annual growth rate is expected to be 12.8% in the next five years

Figure 2: according to different parts of use, make-up can be divided into face, lips, eyes, nails, beauty tools and set products. In terms of the proportion of various categories in the past three years, the face and lip are still the main battlefields of major brands, accounting for more than 80% of the market share of cosmetics for three consecutive years

Sales and Growth Rate of China Cosmetics Market (Fig. 1)



Distribution of Cosmetic Categories from 2018 to 2020 (Fig. 2)



Chapter 2

■ Portrait of Chinese Consumers

■ Portrait of Chinese Color Cosmetic Consumers

Female, mostly 19-30 years old;

Gen-Z and Millennials are accustomed to finding products on EC platforms, studying comments on products before purchase, and being engaged by brands via multi-channel digital marketing and targeted content push

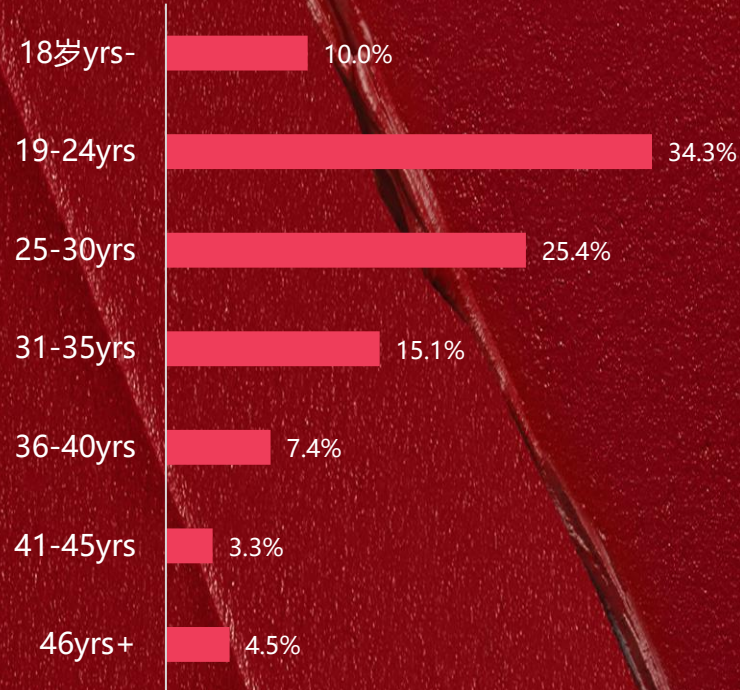
Gender



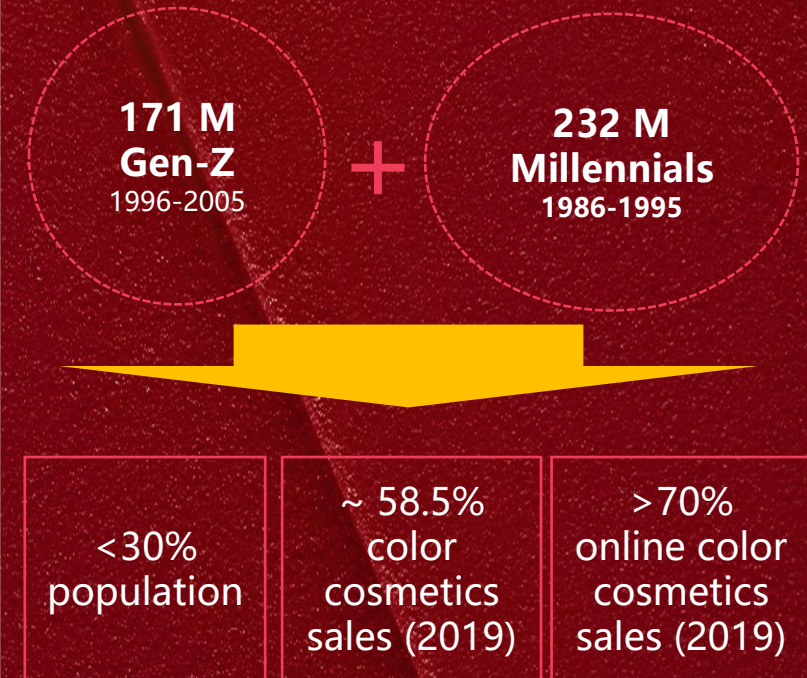
Female
80.8%

Male
19.2%

Age



Core Consumer Groups



■ Characteristics of Consumer Groups



Gen-Z

- Skin Care and makeup enthusiasts.
- Favoring Lip gloss and foundation
- Interested in mobile games and delicacies;
- Prefer Short videos and vertical videos
- Obsessed with social networks
- "Xiachen"



Small Town Groups

- Young, living in tier 3 cities
- Low purchase power,
- Favoring combo set and gift set
- Prefer online entertainment and video apps



Male

- Diverse age and geo-location profiles
- Focused on Skin Care needs
- Buying cosmetics for Spouse
- Business-oriented
- Engaged in continue professional education and exercise
- Online gaming and sports contents

■ Characteristics of Consumer Groups



Premium Brand Buyers

- Age likely > 30; living in Tier 1 and 2 cities
- Shopping actively with strong purchase power
- Favoring foundation, lip colors, and eye shadow
- Business-oriented, travel frequently, dining out, open to new sales channels



Main Stream Brand Buyers

- Age likely < 30; living in Tier 3-5 cities
- Shopping less actively with low purchase power
- Favoring combo set, gift set, lipsticks, perfumes,....
- Overall highly active
- Prefer Mobile Game and High-tech gadgets



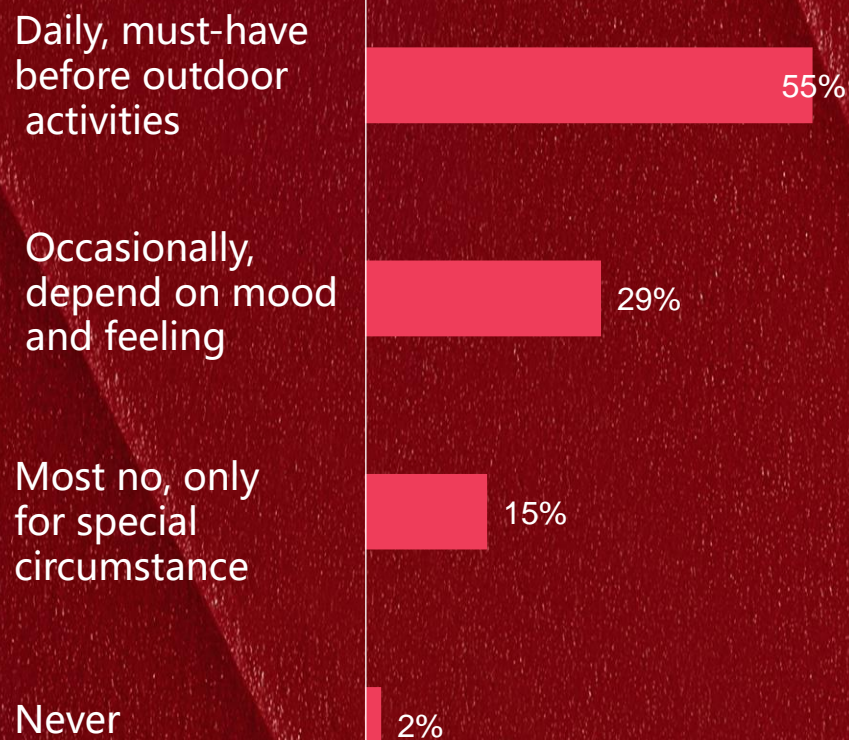
Young Professionals

- Age 25-35
- Corporate employees in Tier 1
- Many in government and financial sectors
- High income high expense
- Invisible poor; fast life pace, willing to pay for convenience
- Quality life practitioner
- Urban little fairy/ trendy boy

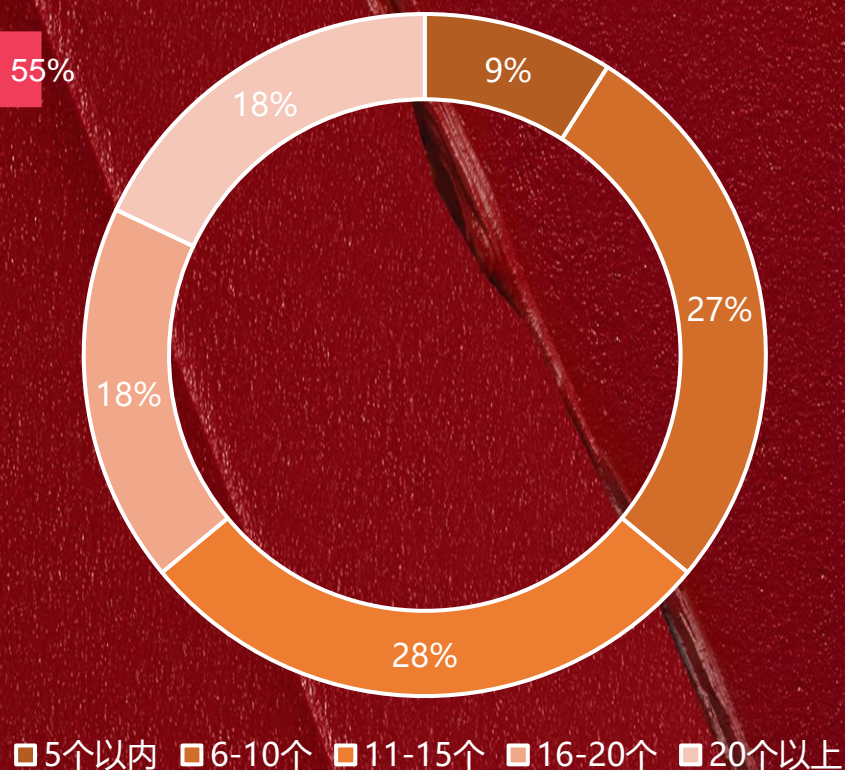
■ Needs of Chinese Color Cosmetic Consumers

More and more women pay attention to not only to be "pleasant-looking" but also to "self-happiness". More than half of women are used to wear makeup for daily activities, and stock up extensive make-up products. Makeup not only enhances their complexion, but also brings them confidence and happiness.

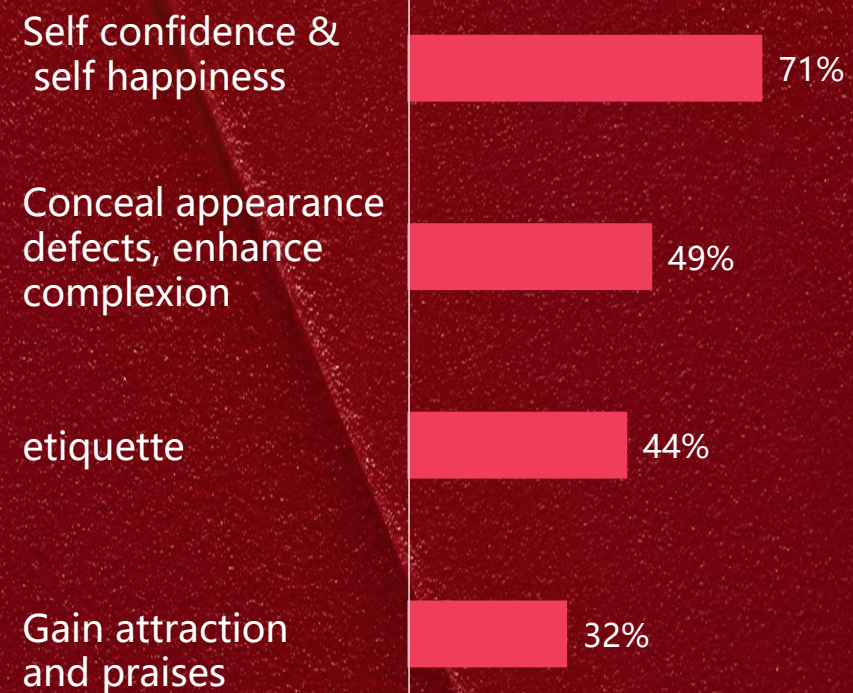
Makeup wear frequency



Number of cosmetic brands owned



Reason to Wear Makeup



Chapter 3

Current status of Make Up
Industry In China

中国彩妆行业发展现状

■ Geo-Distribution

- Most make up brands and OEMs are located in the Pearl River Delta and Yangtze River Delta
- Pearl River Delta:
 - Large numbers of enterprises and brands, while most are small in scale
 - Up to December 31, 2020, out of 2215 licensed color cosmetics companies in China, 1,570 are in Guangdong Province
 - Concentrated in Guangzhou, Chaoshan and other Guangdong cities
 - most of brands in Guangzhou are concentrated in 2 City Districts: Baiyun and Huadu.
- Yangtze River Delta:
 - Relatively larger in scale.
 - many well-known foreign brands or OEM companies wholly-owned or Sino-foreign cooperative enterprises in China, like L'Oreal, Cosmax, Intercos.
 - Domestic brands like Shanghai Zhenchen has developed rapidly In recent years.
 - Concentrated in Jiangsu and Zhejiang Provinces

OEM



Brand



■ Make Up: Major Brands

Top 10 Make up Enterprises and Representative Brand

Consumers awareness:

- Most well-known ones are major international brands, such as Estee Lauder, YSL, L'Oréal Paris, Lancôme, etc.
- Domestic brands with high awareness:
 - Traditional brands such as Carslan and Mao Geping
 - Emerging brands Such as Perfect Diary, Florasis (Huaxizi), Colorkey, etc.

Trend:

- Total market share of top 10 makeup companies are steadily increasing, exceeding 70% for the first time in 2020
 - 7 enterprises have consistently made into top 10, including L'Oréal, LVMH, and Estee Lauder. Carslan is the only domestic player.
- Consumer awareness and market share of Domestic brands are rising rapidly
 - Relying on mobile sales & marketing innovation, 3 domestic brands rapidly made to top 10.



■ Make UP: Business Strategies

International brands and domestic traditional brands

- focus on brand communication, channel construction, and have their own R&D platforms and supply chains

Emerging domestic brands

- Many known as “internet celebrity brands” , entering the market with single unique product and/or novel selling points (known as “explosive products”),
 - Example: INTO YOU emerged with rapid market-share taking via a single lip clay product line. Huazhixiao became a sensation via its highly recognizable girly national style packaging design
- Rely heavily on OEM and ODM
- Demonstrated strong abilities to grasp novel mobile sales channels and significant growth potential

Overall: via internet marketing & sales channels

- Chinese color cosmetic markets are witnessing more and more new domestic brands
- Small international brands can also make quick market entry.
- Traditional domestic skin care brands are also exploring mass-market color cosmetic opportunities

Fig. 1: Y2021 Taobao Platform Cosmetics brand Sales Proportion of Different Countries

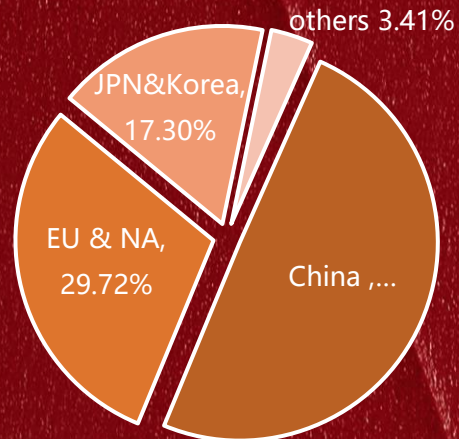
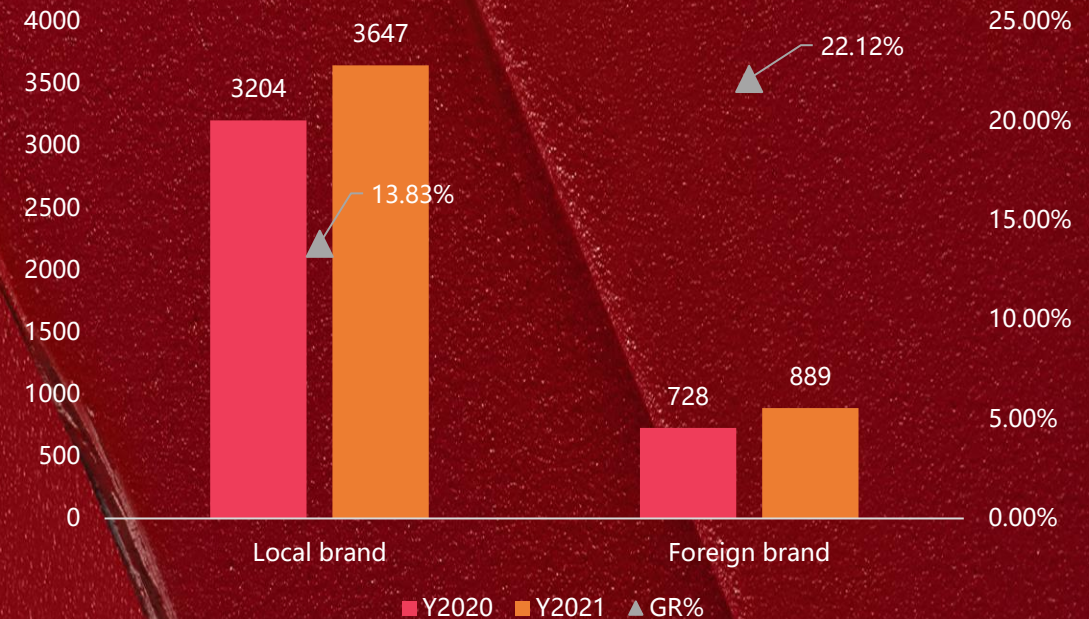


Fig2:Y2020-Y2021 Taobao channel GMV Performance
Local brand & Foreign brand



在售彩妆品牌数量对比 (数据来源：美业颜究院)

■ Make Up: Capital Market Development

Private equity investment and financing events in the Beauty and Personal Care sector significantly increased

- 2021 investment size doubled from 2020
- color cosmetic subsector
 - accounted for 16% total investment events,
 - while trailing skin care investment event number, capital financing events in makeup are generally very significant in terms of brand awareness, maturity and financing size.
- Perfect Diary, “first Chinese Beauty stock Listing in US” , won US\$240 million from its two pre- IPO rounds, largest in Chinese beauty industry in 2020.
- COLORKEY’ s parent company, Meishang, won 400 million RMB its annual 2021.financing event

Fig1: Investment and financing events in B&P from Y2019 to Y2021

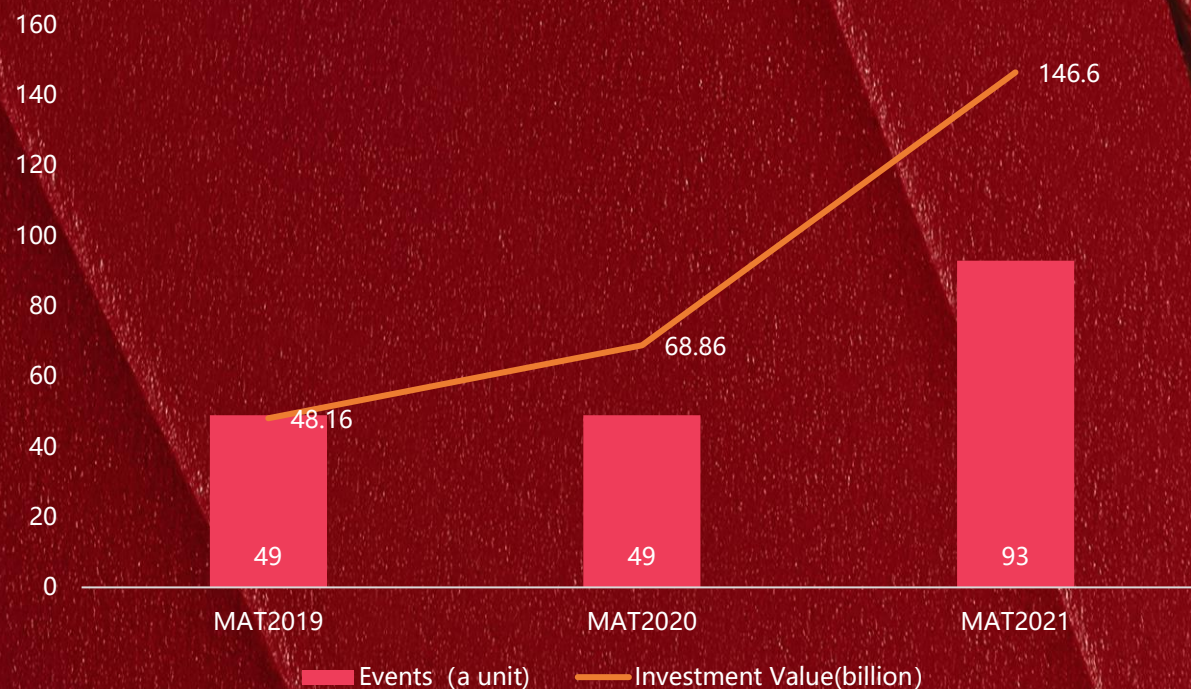
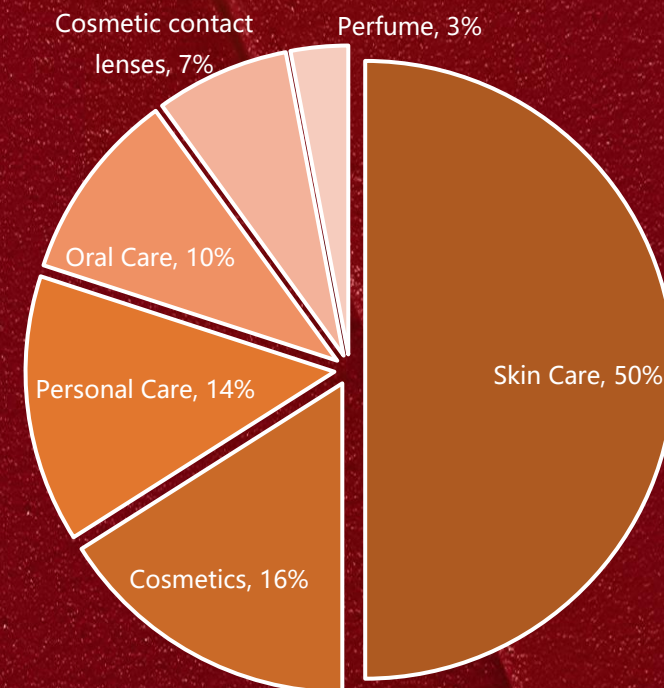


Fig2: Brand types distribution in B&P fiel from Mat2021



数据来源：IT桔子、烯牛数据及公开信息整理

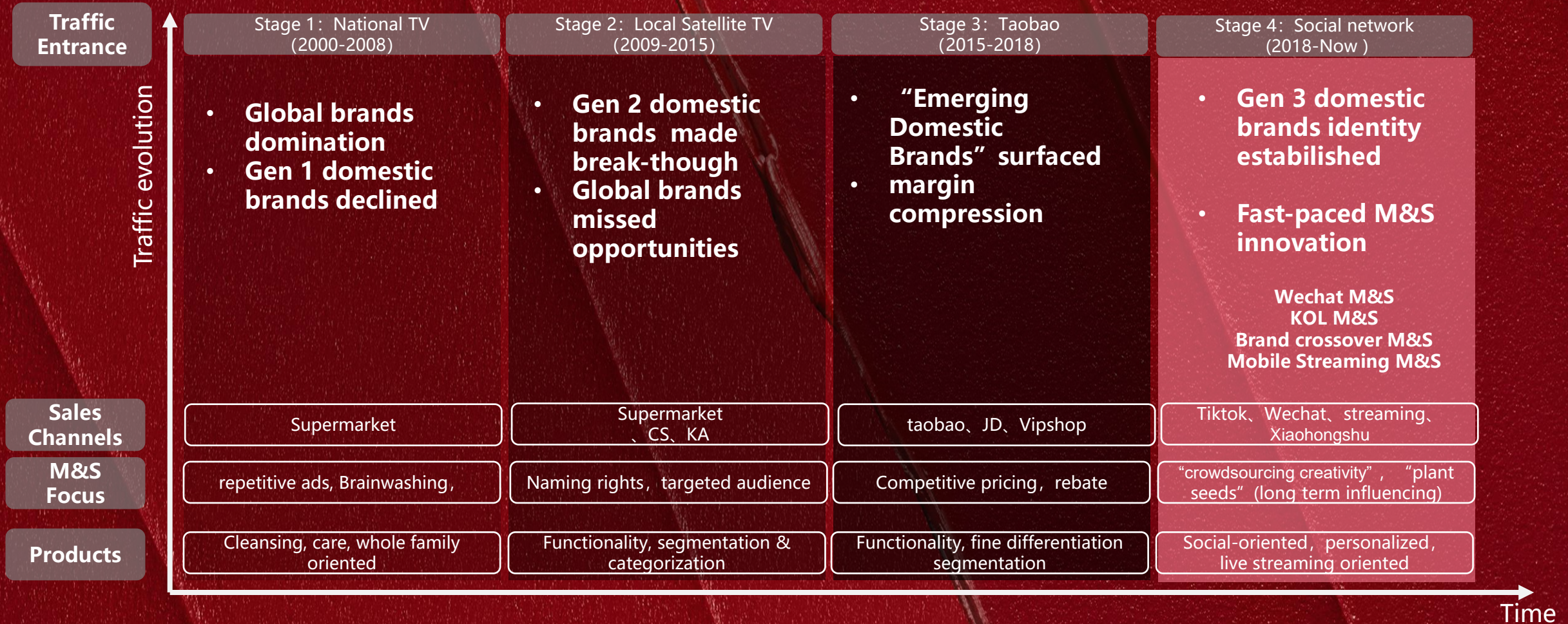
Chapter 4

Growth driven by Marketing & Sales
Innovations

新营销模式推动消费

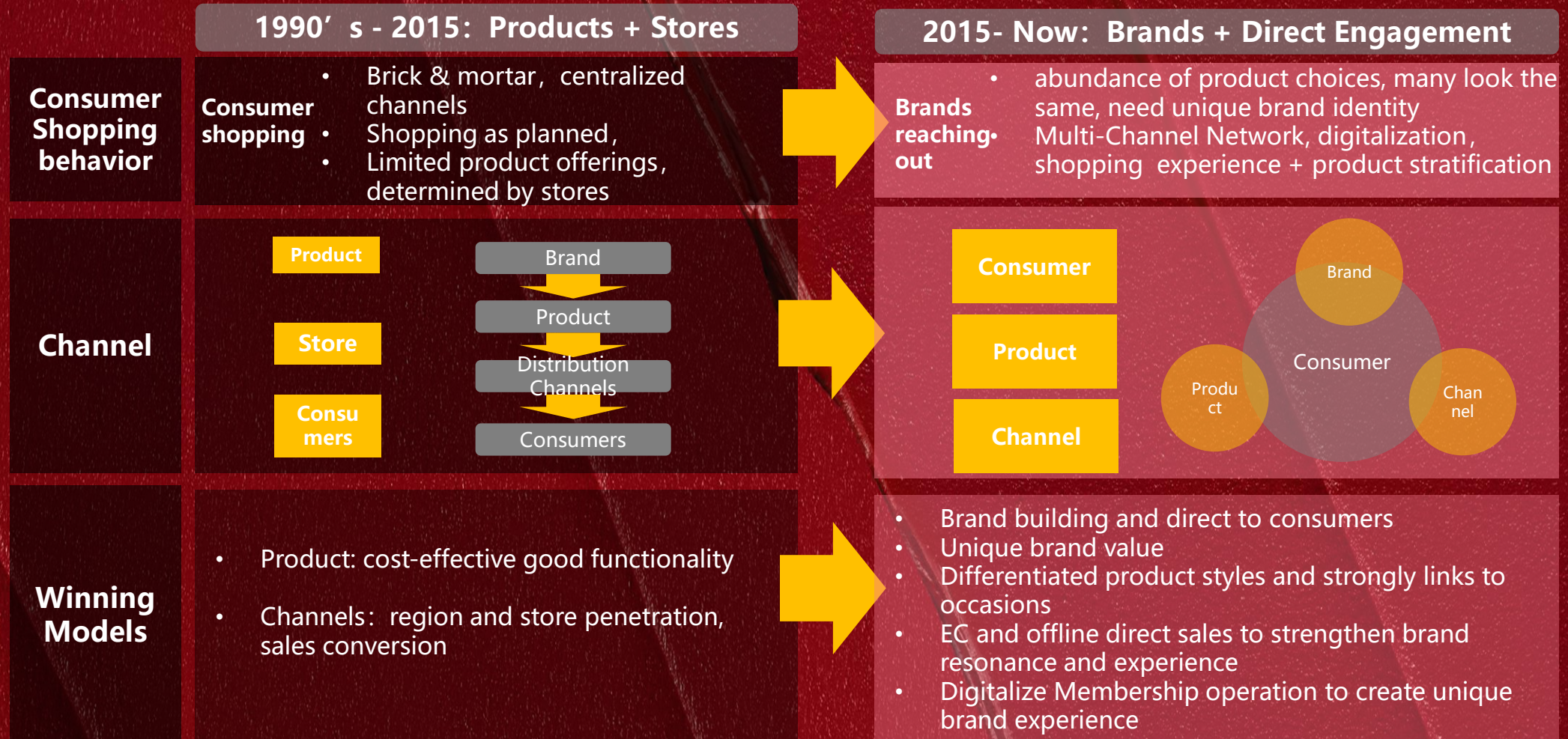
■ Marketing & sales : Channel evolution

- The traffic entrance evolution: National TV station - Local satellite TV stations - Taobao (Alibaba) - mobile social platforms.
- The rise of social platforms:
 - marketing efforts transition from centralized content production to "crowdsourcing creativity".
 - brands are engaging "across-platform," "cross-circle", and "cross-sector" efforts to explore growth opportunities



■ Marketing & Sales: Strategy Evolution

Behind the rise of new consumption, we can find the purchase model shifting from "what do manufactures have" to "what consumers need". As the proportion of new consumers born in 1990s continuously increases, new consumption patterns of social consumption and interactive consumption continues to emerge. Consumption means more than only purchase or sharing comment. Consumption decision is both driven by "Purchase" & "Experience" .



■ Marketing & Sales: Mobile Platforms



Tiktok

Identity

music+creativity+short video based; social networking oriented

Content Format

Short video

Platform Features

comprehensive contents for entertainment and user interactivity. supporting a variety of special effects/stickers/interactive tools,



Kuaishou

Recording and sharing daily life video; social networking oriented

Short video

life-scenario contents for users' emotional resonance & connectivity. "BFF Culture" for strong community bonding



RED

Interactive and young female oriented contents, loyal user base,

blog、short video

Amateur creators sharing real life experience. Blogs and videos thrive for exquisiteness and delicateness.



ZhiHu

Quora-alike question-and-answer social community, high quality original contents

Multimedia mix: picture, text, video

Aggregate topics through the Q&A mode to stimulate user engagement. Professional contents may gain user trust. Extensive topics well cover real-life scenarios



Bilibili

Gen Z dominated; themed around ACG (animation, comics, and games)

Medium to long video

An ACG community evolved into a highly sticky user group with its unique tonality. Contents focus on creative, fun, and stimulating interactive discussions

■ Marketing & Sales: Trend

New media marketing: As M&S channel “decentralizes” , the traffic from new social media shows explosive growth. Brand owners are increasingly conducting promotions via platforms, such as Weibo, WeChat official account, TikTok, Xiaohongshu, Zhihu, etc. Multi-level coverage, like KOL recommendation, celebrity posting, streaming, short videos, etc, can help direct marketing content to targeted consumer groups, for improved sales conversion rates

MKT Matrix of Social Media Platform



来源:【中航证券】助推敏感肌国货龙头的高增长

■ Marketing & Sales: Trend

Domestic color cosmetic brands embrace new M&S channels:

- TikTok and Xiaohongshu are the major channels,
- ~ 50% brands choose TikTok
 - Color products (e.g. Eye and lip products) can be naturally incorporated into short videos
- Increased utilization of new M&S channels are clear:
 - For example, in 2020, makeup contents on TikTok significantly increased from 2019

Fig1:Local beauty Brand Top5 on the platform in 2021H1

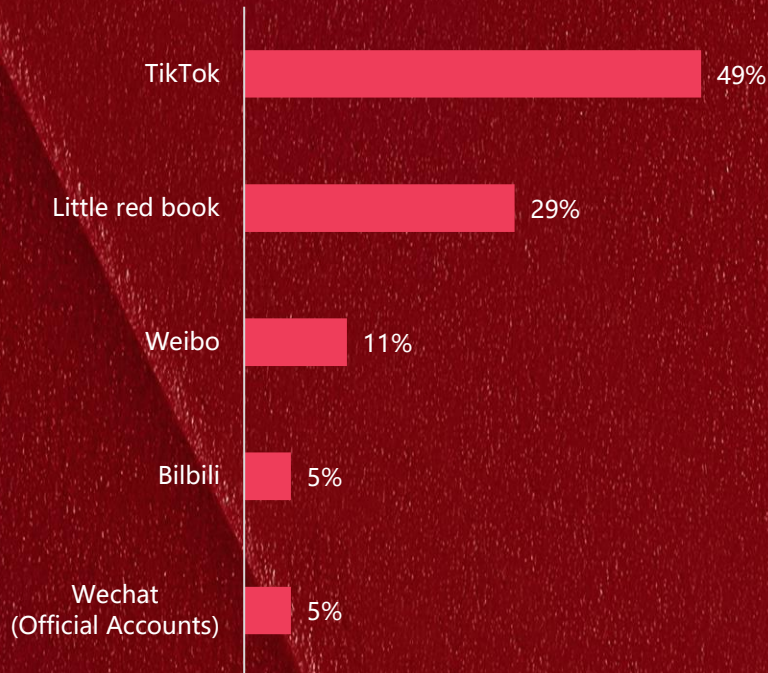
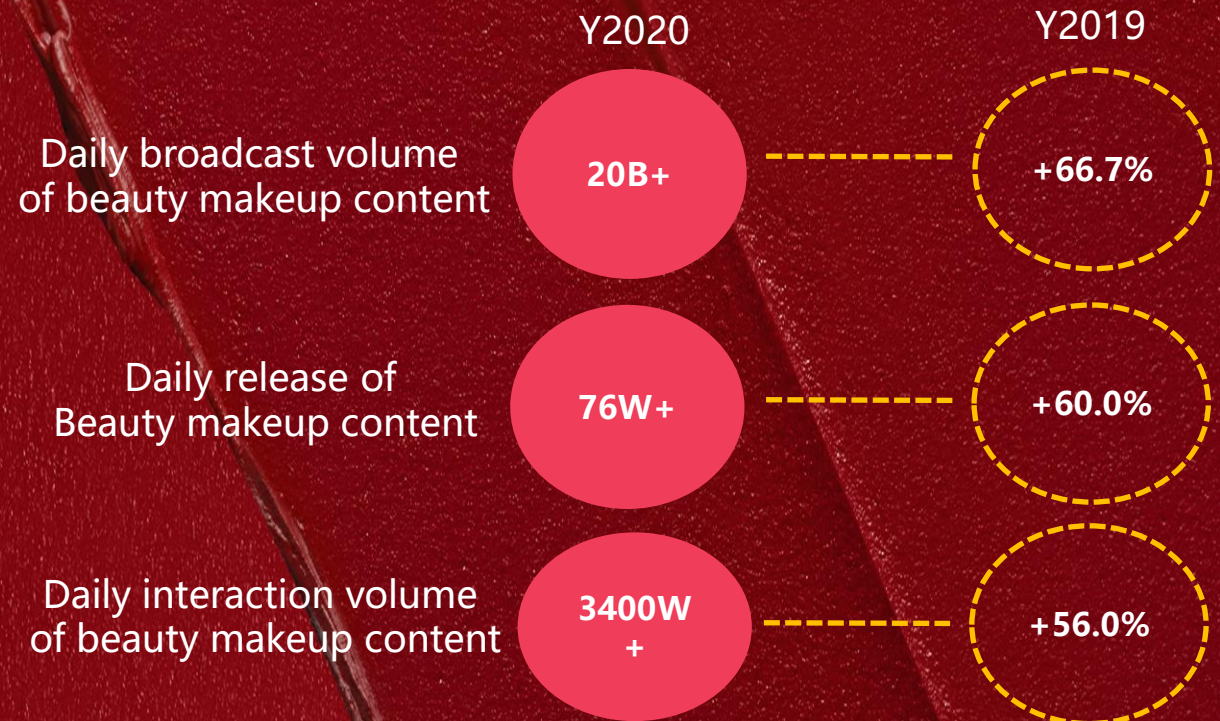


Fig2:Tiktok Beauty Makeup content in 2020



■ Marketing & Sales: E-commerce via mobile livestreaming

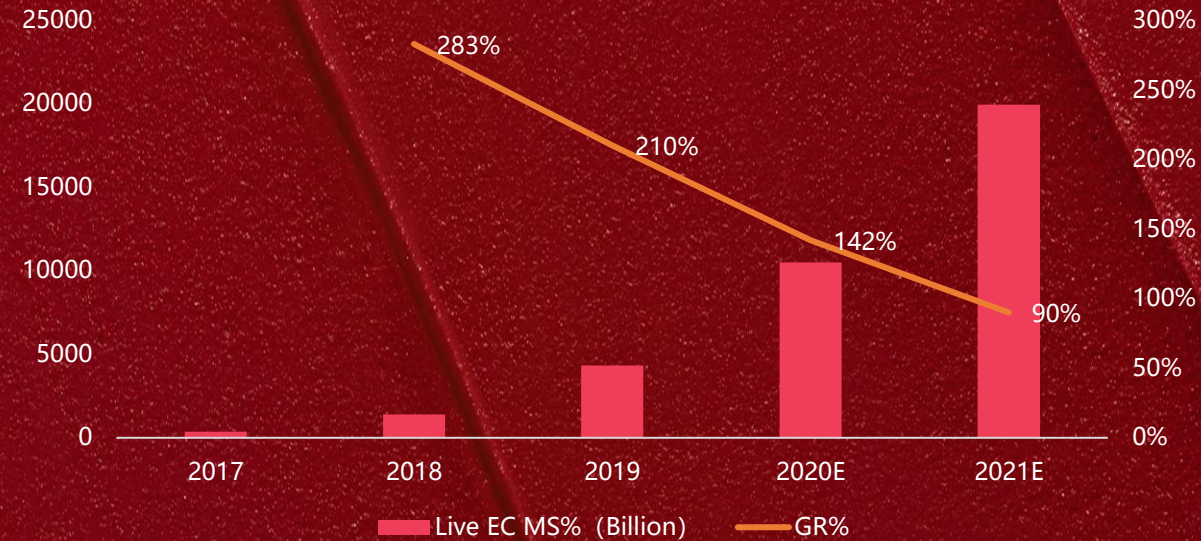
E-commerce via mobile livestreaming provides brands more choices in marketing and publicity

Per China Internet Network Information Center, as of June 2020, 309 MM users were engaging in mobile livestreaming commerce;

First half of 2020 alone, there were 10 MM mobile livestreaming commerce events, over 400k active broadcasting hosts, and over 50 B views. Beauty products are popular in those events, with % increasing over the time .

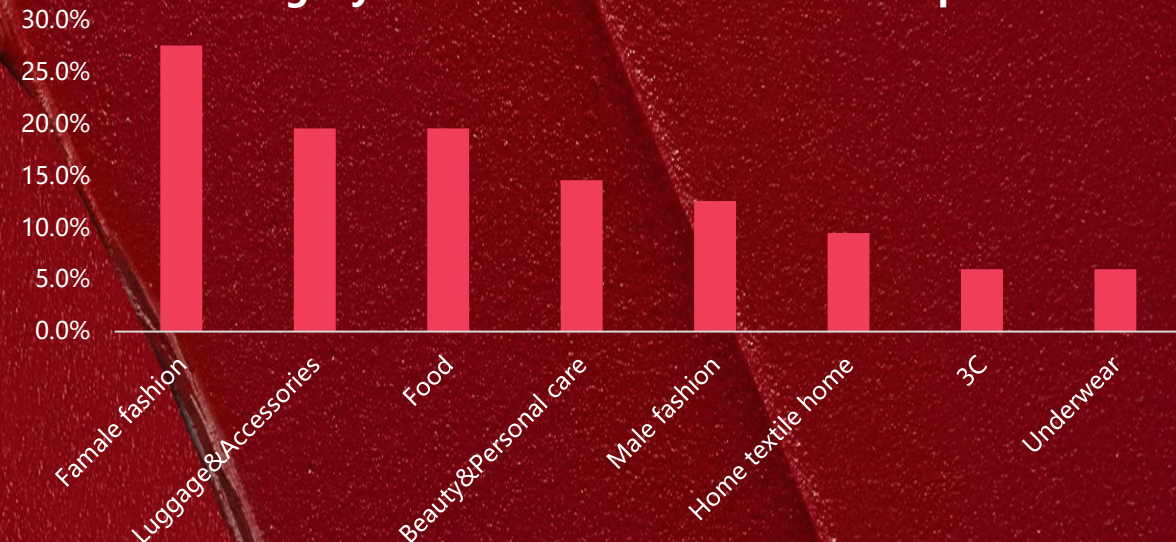
Celebrity-imitation makeup, makeup tutorials, lipstick color test, etc. can all achieve vivid display effects via mobile streaming. The “livestreaming sales events” on social media hosted by beauty bloggers, internet celebrities and movie & TV stars have greatly shaped the shopping behaviors of Millennials and Gen Z, broadened the marketing channels of beauty products, and improved domestic beauty brands’ penetration rate.

Market size and forecast of China's Live e-commerce



Data Source: 毕马威《迈向万亿市场的直播

Category distribution of live broadcast products



Data Source: 毕马威《迈向万亿市场的直播

Chapter 5

Case Study



Carslan group, integrating R & D, production, marketing and service, is a professional cosmetics group. Carslan, is a well-known Chinese makeup brand leading the fashion trend.

Mission

Let Chinese consumers use the world's best makeup products

Vision

Build a world-class makeup group

Value

Create value for consumers, customers, employees and society

Direction

Makeup Expert with Leading technology

主信任状

Specialized in making-up for 20 years

Core SLOGAN

Carslan, a leading brand of professional cosmetics in China



Elite R & D team

Domestic top talents + international advanced technology, with "Technology Innovation" as the core driving force



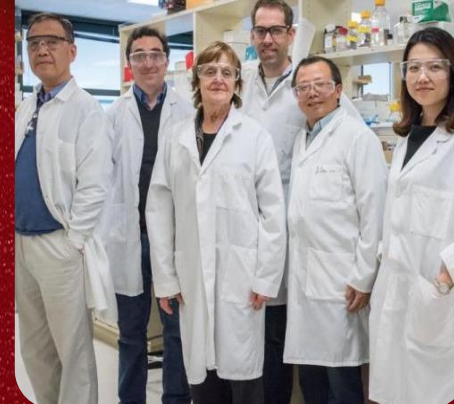
The group has a number of patents and obtained from Guangdong Province:
 "High Tech Enterprise"
 "Guangzhou RD Institution"
 "Guangdong Makeup Engineering Technology Research Center"

Collaboration



Carslan has established strategic collaborations with Croda, Dow, Nissin and Sensient, the world-famous chemical raw materials companies

International team



Established a professional RD lab in Italy
 Recruited top RD experts and expending international team

全球制造



强大的研发能力 一流的硬件设施

设备现代化



引进双芯全自动灌装机等

管理一体化



兼具业务、科研、生产等部门

生产规模化



建筑总面积近13万平方米，设计年产量是现有工厂生产产能的3倍

研发专业化



开展活性提取物相关工作引进发酵提取和超声提取机器

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THANK YOU