

RESEARCH ON THE COMPETITIVENESS OF SHISEIDO SKIN CARE PRODUCTS IN CHINESE MARKET

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Abstract: This paper firstly introduces an overview of the development of the Shiseido Group in China, then analyses the external environment of Shiseido in China through the PEST model and uses the SWOT analysis to study the competitiveness of Shiseido's skin care products in the Chinese market. After that, followed by an in-depth understanding of the current problems of Shiseido China, and a detailed analysis and discussion of these problems, and propose feasible solutions to improve the market share of its products, give full play to its own advantages, and seek greater development in the Chinese market. Finally, Some suggestions are given for Chinese skin care enterprises to enter foreign markets through the strategy of Shiseido skin care in China.

Keywords: Skin Care Product; Competitiveness; Shiseido; China

1. INTRODUCTION

As China's economy continues to grow rapidly and people's living standards gradually improve, the market demand for skincare products is gradually increasing and domestic skincare brands are springing up to capture the market alongside foreign companies. For example, some newly emerged domestic skin care brands: OrigiMed, HBV, PROYA, SIMPLY THIS, etc. In 2022, L'Oreal Group recorded the highest sales and growth rate in 10 years, with annual sales of 38.26 billion euros (about 278.4 billion RMB), an increase of 18.5% compared to 2021. In 2022, Shiseido's China profits will be in the red for the first time, so it is an important proposition for Shiseido to improve its competitiveness and turn a loss into a profit in the Chinese market.

2. SHISEIDO COMPANY PROFILE

2.1 Basic Overview

Shiseido is a worldwide renowned cosmetics company originating in Japan, founded in 1872 and headquartered in Tokyo. The company's product lines include skin care, color cosmetics, fragrances, personal care and beauty foods. Shiseido is committed to providing high-quality, high-tech beauty products to consumers around the world, and upholds the philosophy of "delivering culture through beauty (See Table 1).

Table 1 History of Shiseido

Development Stage	Important Events
	Shiseido was founded in 1872 in Ginza, Tokyo as a Western-style dispensary (brand creation)
Business transformation period from pharmacy to cosmetics (1872-1921)	In 1897, the first cosmetic product, "EUDERMINE Red Honeydew" lotion, was created (first attempt at cosmetics). In 1916, the establishment of a cosmetics division was announced and the first perfume was marketed (drugstore shifted to cosmetics business)
Business model reform period (1921-1926)	In 1921 it became a joint venture, in 1927 it became a joint stock company, and in 1923 it entered the chain business and established a chain system covering Japan.
Transition period (1957-1986)	1949 Listed on the Tokyo Stock Exchange and entered a new era of development.
Rapid Expansion Period (1957-1986)	In 1956, started selling products in Taiwan, and in 1962 established the first overseas sales company - Shiseido Hawaii Corporation, entered Europe for the first time in 1963, established a subsidiary in the United States in 1965, officially In 1963, Shiseido entered Europe for the first time.
Transformation of integrated business period (1987-1995)	Shiseido Pharmaceuticals Co. was established in 1987 as a comprehensive beauty and health business, and in 1988, Shiseido acquired Jodotron and Dublin Corporation in the U.S. In 1992, Shiseido acquired Issey Miyake and established Shiseido Leisure Products in the same year.

Global M&A Period (1996-2011)	Acquired the salon business division of Lamor Corporation in the U.S. in 998 and the NARS brand in 2000.
Accelerated globalization period (2012 to present)	Acquired French fragrance brand SergeLutens in 2015, American makeup brand LauraMercier in 2016, and Acquired OlivoLaboratories, an artificial skin technology company, in 2018.

Source: Shiseido website

Shiseido has an extensive global distribution network with products in over 120 countries and regions. In February 2021, the Shiseido Group announced the launch of its medium- and long-term management strategy "WIN 2023 and Beyond", with 2022 as the second year of the strategy's implementation. The year 2022, the second year of the strategy, is positioned as the year to "get back on track for growth[1]. In order to achieve the strategy, the Shiseido Group will focus on skin care and beauty by leveraging its strengths, reconfiguring its business portfolio, and making fundamental changes to its business structure, including improving profitability with a focus on the European and American businesses, so that management will place greater emphasis on profits and cash flow.

2.2 Shiseido's Main Products and Sales Channels in China

Shiseido is mainly engaged in cosmetics, beauty and health care products, and several of its brands and products are involved in skin care, cosmetics, perfume, facial care, body care and other businesses. Shiseido's products and brands in China can be roughly divided into five categories: high-end cosmetics, mass cosmetics, perfume series, personal care, and professional hair salons. Its CPB brand brings beauty and skin care consultants to mall counters to provide customers with extra value-added products and enhance their consumption experience. High-end cosmetic sales channels have changed in recent years, slowly shifting from offline to online, with e-commerce terminal sales up 20% in Q1 2022 compared to the same period last year (source: Shiseido results show). CPB currently has 7.08 million fans in its Tmall flagship store, with sales of 589 million yuan in 2022, ranking 14th in the Tmall beauty and skincare TOP20[2-4]. The mass daily chemical represented by AUPRES (Oprah) is divided into two lines in channel deployment. That is, department store counters and drug stores, mass merchandiser stores and cosmetics franchise stores, etc. The diversified access facilitates customers' purchasing activities. As a representative of professional personal wash and professional hair salon, Sephora's brand is mainly distributed in the supermarket channel and other third-party channels, which also reduces Shiseido's promotion costs, as shown in Table 2.

Table 2 Shiseido's main product categories in China (excluding Hong Kong, Macau and Taiwan)

Brand classification	Brands represented	Channels
High-end cosmetics	CPB IPSA, SHISEIDO	The high-end skincare business is mainly provided to customers through offline counters. In recent years, the share of e-commerce channels such as through Tmall and Jingdong has increased.
Affordable Cosmetics	ANESSA, AUPRES ELIXIR, HAKU, URARA	Mainly through the CS channel, covering department stores, specialty shops, Watsons, etc.
Perfume	ELIE SAAB, Issey Miyake narciso rodriguez	with famous designers and well-known brands collaboration, selling tailor-made high end fragrances
Personal Care	Aqua Secret, Facial Wash Specialist, Sephora	Sold through mass merchandisers, drugstores, etc.
Professional Hairdressing Salon	JOICO, SHISEIDO	Specialised hair care products and styling agents for hairdressing salons.

Source: Shiseido website

3. SHISEIDO'S CURRENT DEVELOPMENT IN CHINA

3.1 History of the Shiseido Group in China

In 1981, the Shiseido Group established the first foreign cosmetics manufacturing plant in Shanghai, a move that enabled it to localise its production in the Chinese market. Shiseido's soaps, cosmetics and toothpastes were sold in nine large shopping malls and restaurants, including the Friendship Store and the Beijing Hotel, covering some 60 varieties. 1993 saw the launch of AUPRES, a joint project between Shiseido and a Chinese cosmetics company. Since then, the Shiseido Group has set up research and development centres in Beijing and Shanghai to focus on the development of skin care products for Chinese consumers.

In 2004, Shiseido launched a new brand in the Chinese market called "KOSE", with "Cleansing Oil" as the main product. To promote its products, Shiseido adopted a new marketing strategy to reach out to consumers through various

channels such as TV commercials and magazines. This strategy has been well received and well received by the market. The Shiseido Group went through a three-year recession between 2012 and 2015, which was caused by political factors and exchange rate fluctuations.

At the end of 2014, the company launched its "VISION 2020" strategy, which is intended to "revitalise" Shiseido. The core strategy of the strategy is threefold: firstly, in order to improve the impact of the brand, the company needs to optimise its brand structure while continuing to increase its promotional efforts, i.e. by withdrawing underperforming brands and investing more in top-selling brands to achieve better results; secondly, it should invest more in research and development and factory facilities in order to increase production capacity[5]; and thirdly, it should expand its overseas markets in various ways in order to achieve the goal of international business. Promote changes in the organisation of the company to better meet the diverse needs of global customers.

In 2016, Shiseido focused on e-commerce as an important channel and successfully captured a foothold in the e-commerce market with the promotion of platforms such as Red Booklet and Tiktok.

In 2019, Shiseido established its China headquarters in Shanghai to further strengthen its presence in the Chinese market. Shiseido also launched more products and services in China to suit the needs and preferences of Chinese consumers, and adopted more diversified marketing techniques to further enhance its brand influence and market share in the Chinese market.

3.2 Current Status of Shiseido Group Marketing in China

At present, Shiseido's marketing in China is not optimistic, from the data of Shiseido's sales in China, 2022 is the first decline in sales in Shiseido China in 6 years, and is also the first time that the profit in China is in the red. Shiseido China had sales of 5.856 billion yuan in 2022, with a loss of 100 million yuan in the first half of the year and a profit margin of -1.70%. According to Figure 1, Shiseido China's revenue and profit growth has slowed significantly since the start of 2019. In the first quarter of 2022 Shiseido posted a loss in China.

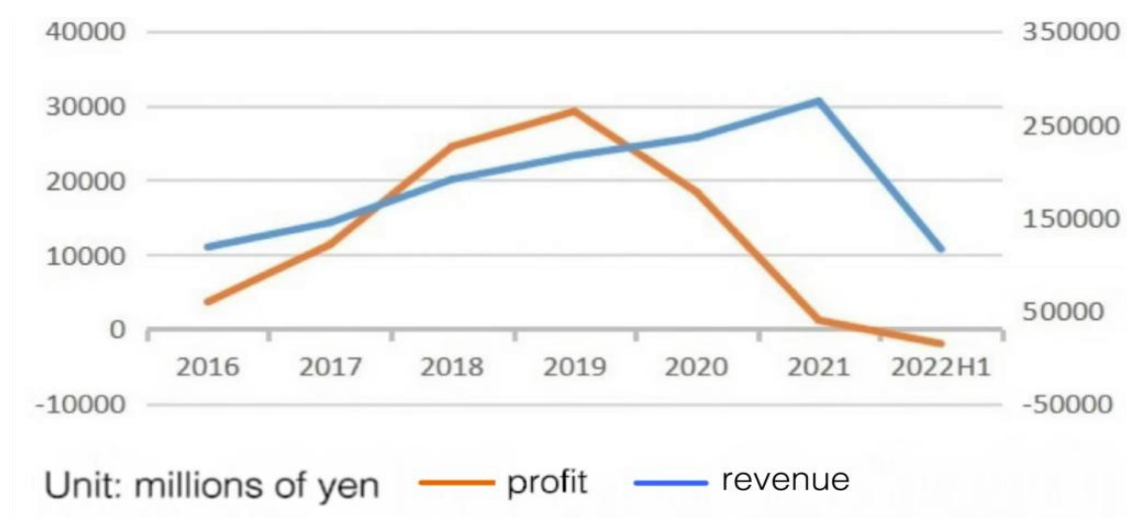


Figure 1 Shiseido China Regional Revenue and Profit (2016-2022)
Source: Shiseido financial results

The financial results show that sales in the Japanese domestic market achieved RMB5, 853.3 million in the first half of 2022, accounting for 23.4% of total sales, a decrease of RMB1, 234 million or 17.4% year-on-year compared to the same period last year. Sales in China for the first half of the year were RMB5, 856 million, a decrease of RMB1, 428 million or 19.7% compared to the same period last year. Despite the decline, China still overtook the Japanese domestic market to become the Shiseido Group's top market by a margin of RMB36 million, as detailed in Figure 2 below.

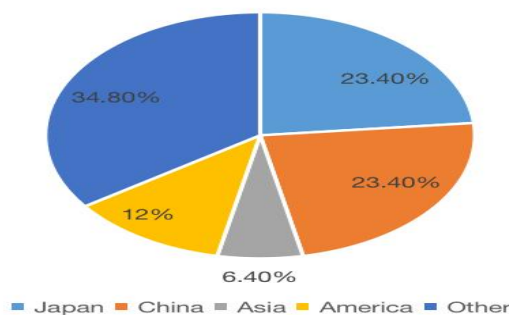


Figure 2 Shiseido's global sales share by market (1Q2022)
Source: Shiseido financial results

Compared to Japan, the e-commerce market in China is showing a more dynamic development. Shiseido's sales in the Tmall channel have shown significant growth due to expanding strategic investments and the impact of the 618 promotion and other e-commerce platform activities. During the 618 promotion, the NARS brand achieved over 60% sales growth and further market share gains. The NARS brand's marketing approach is inextricably linked to its strong online sales channel, and in 2022, the brand's fame was boosted by the addition of star Xiao Zhan, which had the effect of a channel change in addition to increased brand awareness. According to statistics, Xiao Zhan's sales on the day he endorsed NARS exceeded 80 million RMB, a full 207 times difference in NARS sales before Xiao Zhan's endorsement. The NARS brand has seen a significant boost in sales thanks to its successful combination of channel transformation and the celebrity effect[6]. As one of the Shiseido Group's make-up brands, NARS has enjoyed the dividends of channel transformation, however, the Shiseido has not applied this strategy to its other sub-brands.

Although Shiseido's growth rate in China declined slightly in the first half of 2022, it had been growing before that, as detailed in Table 3. 2023 marked the 151st anniversary of Shiseido's establishment and the 42nd year of its entry into the Chinese market, and Shiseido regards China as the Group's second headquarters and is very confident in the Chinese market, continuously carrying out investment and factory construction in China. 2022 saw Shiseido reach a strategic cooperation framework agreement with Boyu Investment, a leading asset management company in China, to launch the first international beauty group special investment fund in mainland China - Ziyue Fund, with a registered capital of 501 million. This move demonstrates Shiseido's confidence and determination to actively participate in local innovation in China and unlock development potential. The cooperation heralds the beginning of Shiseido's advance layout of new biomaterials for beauty in the Chinese market and the exploration of cooperation space for functional technological skincare products.

Table 3 Shiseido China's performance in recent years

Shiseido China's performance in recent years (in billion RMB)				
Year	Net sales	Year-on-year increase	profit	Year-on-year increase
2022	134.28	-6%	-2.05	---
2021	142.85	16.5%	0.61	-93.6%
2020	122.62	9.05%	9.56	37.1%
2019	112.45	13.3%	15.2	19.2%
2018	99.22	32.3%	12.75	116.4%
2017	75.02	22.2%	5.89	212.2%

Source: Shiseido financial results

4. ANALYSIS OF THE EXTERNAL ENVIRONMENT

4.1 Political Environment Analysis

In recent years, the Chinese government has imposed stricter controls on foreign companies, especially Japanese companies. Political tensions between China and Japan have led the Chinese government to take a more cautious approach when dealing with Japanese companies. Therefore, the Shiseido Group is likely to encounter difficulties in regulatory compliance and market access issues. The country enacted a new law in 2016 that requires foreign companies to submit extensive documentation to the government before they can be approved to operate in China. The law aims to increase transparency and ensure that foreign companies comply with Chinese terms. 2019 saw a Chinese court order Shiseido to pay a fine of RMB 1.3 million (approximately US\$190,000) for price fixing. The Chinese government also enforces cosmetic ingredient regulations to safeguard the safety and quality of cosmetics. China amends its Cosmetics Supervision and Administration Regulations (CSAR) in 2021. The new regulations require companies to conduct more stringent safety assessments of their products, and any cosmetic products that do not meet the new regulations will not be allowed to be sold in China[7-9].

The regulatory environment in China has the potential to pose a significant challenge to foreign companies, particularly in the skincare industry. In response to this, Shiseido has established local factories in China to ensure that skincare products comply with Chinese regulations and to minimise the dangers posed by regulatory issues.

4.2 Economic Environment Analysis

In recent years, China's rapid economic growth and the gradual improvement in people's living standards have led to a gradual increase in market demand for skincare products. With China's increasing per capita disposable income, more consumers are willing to invest money in more premium skincare products, an opportunity for Shiseido to launch premium products. Trade and economic data shows that China's per capita disposable income is growing steadily, rising from around US\$6,280 in 2017 to around US\$10,170 by 2022. According to Econsult Intelligence, China's cosmetics market was 305.81 billion yuan in 2019, with the skincare market accounting for 66% of the total. It is predicted that China's skincare market size will continue to grow until 2025 and is expected to exceed 90 billion yuan. 2015-2020

each year, the compound growth rate of China's cosmetic market size has reached a certain level and is gradually rising. Combined with the chart below, it can be seen that the CAGR of China's cosmetics market far exceeds the global average (See Figure 3).

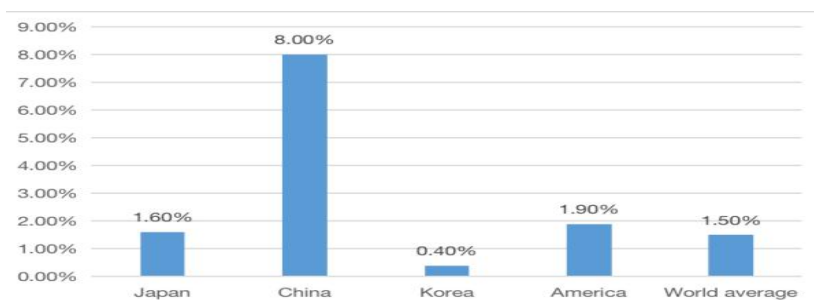


Figure 3 Cosmetics Market Size CAGR by Countries and Regions 2015-2020

Source: Eurononitor

4.3 Social Environment Analysis

Chinese consumers are becoming more conscious of their personal image and beauty, and demand for skincare products is gradually increasing. However, with increased awareness of environmental protection and health, consumers are also demanding higher levels of safety, environmental protection and sustainability in skincare products. In addition, Chinese society is gradually ageing and there are differences in consumer needs and changes in consumption habits among different age groups.

4.4 Technical Environment Analysis

Technological advances optimise the combination of the various factors of production, and technological progress drives the optimisation of the industrial structure. Along with the continuous development and evolution of technology, the evolution of skincare products from the 1940s era of mineral oil to the current era of zero-burden (which refers to the reduction of chemical ingredients in skincare products, mainly hyaluronic acid, amino acids and collagen, which are mostly mild and easily absorbed by the skin) has been clearly reflected in the skincare industry[10-12]. As China's technological prowess increases, more and more technology companies are investing in the development of skincare products. For example, Lister uses artificial intelligence, big data and other technologies to develop skincare products that can be tailored to skin type. Herbst uses biotechnology to transform botanical ingredients into a more absorbable form, improving the effectiveness and safety of its products. Corum uses genetic testing technology to provide consumers with more accurate skincare solutions by detecting personal genetic information. In the future, 25, 000 human genes will be deciphered and start to be used in cosmetics (these genes include skin genes related to ageing). Many companies are beginning to use the concept of genetics as a way to enter product development and production, bringing skincare into a whole new era.

5. ANALYSIS OF THE EXTERNAL ENVIRONMENT

5.1 Analysis of Internal Competitive Conditions

5.1.1 Corporate Competitive Advantage

Strong research and development capabilities. The Shiseido Group has a century-long history of setting up R&D facilities and holds numerous patents in wrinkle reduction, whitening, moisturising and anti-ageing, and holds the top position in the IFSCC (International Federation of Societies of Cosmetic Chemists) with a record of 24 awards. The Shiseido Group has always held a leading position in the Chinese market, both in terms of the total number of patents and the speed of product development. Shiseido has eight R&D centres worldwide, two in Japan, one in the US, one in Singapore and one in France. China has three Shiseido R&D centres, surpassing the number in Europe and the US, thus demonstrating the high strategic position of the Chinese market in the Shiseido Group's overseas markets. See Figure 4 below for more details.

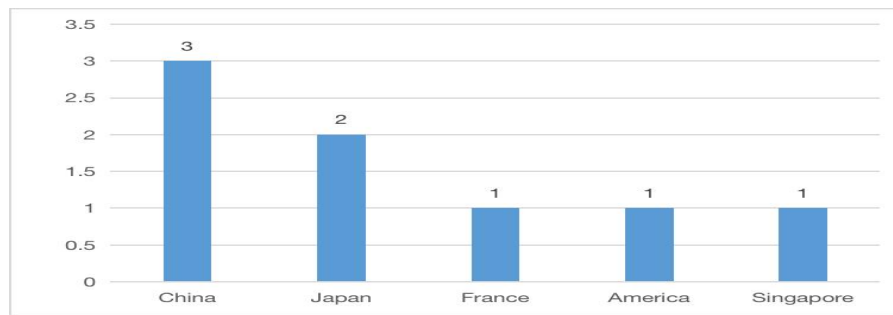


Figure 4 Number of Shiseido R&D centres worldwide

Source: Shiseido website

With its China R&D centre, the Shiseido Group has the highest number of patents in China among foreign cosmetic companies, enabling the Group to maintain a high level of product quality and maintain a high-tech skincare image. Shiseido's invention patents in China far exceed those of its rival L'Oreal Group, and exceed L'Oreal's by half in terms of design patents. It also has far more patents for inventions than the Perrier Group in China. For more details, see Table 4 below. Shiseido has added (Sodium Carboxymethyl β -Glucan + Turkeic Rose Water + PEG/PPG-14/7 Dimethyl Ether) to the third generation of Shiseido Red Yeast Essence, currently the hottest skin care product, a patented complex that indirectly reduces the skin's response to external stimuli by promoting the expression of the CD39 gene in Langerhans cells. This increases the skin's resistance to external stimuli. Shiseido tested the patented combination on 22 individuals in human subjects for 6 weeks and confirmed that the patented combination does have a significant boost to CD39 gene expression.

Overall, Shiseido is in the top position in the Asian cosmetics industry in terms of research capabilities represented by the number of patents. The Shiseido Group is also deeply involved in research projects for sun protection and whitening items in China, acquiring a total of three patents for whitening and two patents for sun protection in China in 2015, which is also higher in number than the Amore Pacific Group in the same quantum.

Table 4 Comparison of the number of patents in force in China for the Shiseido, L'Oreal and PROYA

	Shiseido	L'Oreal	PROYA
Design patents	179	86	75
Utility model patents	6	9	33
Invention patents	365	279	105

Source: Compiled by the author from the official website of the Intellectual Property Office Deadline: April 2023

A diverse product portfolio. Shiseido has a wide range of product lines in the skincare sector, covering the needs of different skin types and age groups. For example, Shiseido's branded "Snow Skin" range is aimed at Asian women for whitening and antioxidant needs, while the "Sunflower Seed" range is aimed at dry skin for moisturising and repairing needs. The company also offers a range of cleansers, toners, moisturisers, serums and masks, a diverse product portfolio that helps Shiseido cater to a wide range of customer segments.

Customer-oriented approach. Shiseido's customer-centric approach helps the company to understand the needs of its customers and to meet them effectively. By gaining an in-depth understanding of customers' needs and preferences, it offers individually tailored products and services, thereby enhancing customer satisfaction and loyalty. For example, Shiseido's brand Cle de Peau Beauté has launched the "BEAUTY CONCIERGE" service, which offers personalised skincare solutions and other services to meet the different needs of its customers.

In summary, Shiseido's internal competitive advantage is based on strong R&D capabilities, a diversified product portfolio and a customer-oriented approach. These strengths help the company maintain its leadership position in the skincare industry and cater to the changing requirements of customers.

5.1.2 Corporate Competitive Disadvantage

Focusing only on a single female market. Shiseido does not pay attention to the Chinese male skincare market. Although men had a shallow understanding of the concept of skincare ten years ago, nowadays, with the progress of social civilisation, skincare issues are not only for women, men also have skin problems and need skincare products. The need for skincare was not originally reserved for women. In Korea, it is also common for men to go out for skincare and make-up, and in the future, male skincare will be a big market in China. On the contrary, L'Oreal Group has a professional men's skincare brand, Kiehl's, and has launched a special skincare kit for men, which has also achieved good sales in the Chinese market[13].

The lagging nature of the management mechanism. Shiseido's operational decision-making structure in China is based in Japan, resulting in a disconnection between the decision-making structure and the executive body. Shiseido lacks sensitivity to the Chinese market and fails to realise that the Chinese skincare market has transformed from one dominated by offline channels to one dominated by online channels. Since 2015, e-commerce has grown rapidly in the Chinese market, and consumer initiative has become increasingly active. The survey questionnaire asked 300 randomly

selected respondents about their channels of purchasing skincare products and questions about their needs for skincare products. The results show that the majority of Chinese consumers purchase skincare products through online shopping, with a high proportion of 33.99% buying online and 23.43% buying offline at counters, which is lower than the online shopping ratio. This indicates that Chinese consumers have shifted from the offline counter channel to the e-commerce channel for purchasing skincare products. See Figure 5 below for more details.

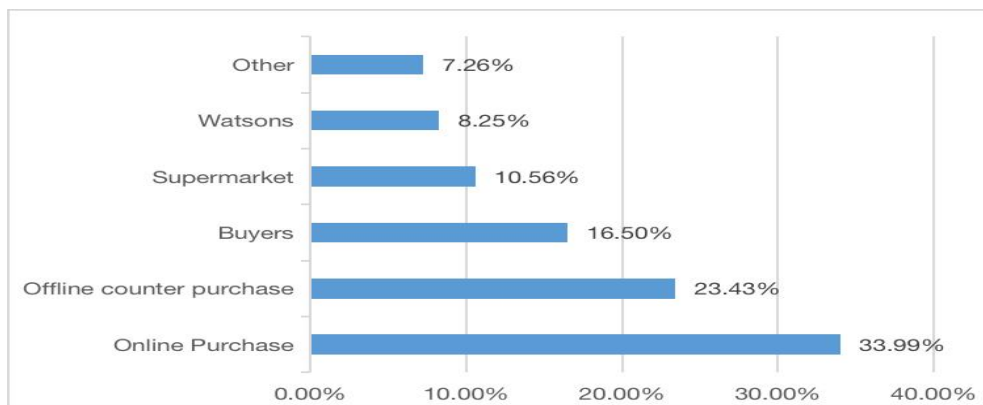


Figure 5 Most common way Chinese consumers buy skincare products

Source: Questionnaire

With the rise of consumer-owned values driven by the growth of e-commerce, the Chinese market is evolving into an area where marketing is required. In response to this trend, more and more brands are focusing on consumer experiences and needs. With the emergence of Tiktok and Red Booklet, consumers can learn more about domestic or niche brands from the many beauty and skincare bloggers. This means that online channels will dominate the landscape of the domestic skincare industry in the coming years.

Various domestic skincare brands have risen in the e-commerce channel during 2017-2019, with L'Oreal and Estée Lauder even reaching annual sales of one billion on the Tmall channel. However, until 2019, as Shiseido relied too much on offline sales channels. As a result, it has never been able to keep pace with the speed of e-commerce of other competing brands. Compared to Shiseido's share of only 40% of online sales in 2020, L'Oreal has already achieved over 60% of online sales in 2020. With the epidemic hitting the global economy hard, consumers' purchasing power declining, offline retailers closing their shops, and the dividend period for mainstream online e-commerce channels fading, companies' marketing costs are escalating. Higher costs and lower sales have been a relatively big challenge for the Shiseido Group. The financial report shows that Shiseido's sales in China for 2020 and 2021, while still growing somewhat, will see its profit margin decline from 13.5% in 2019 to 0.4% in 2021[14-15].

In conclusion, the changes in the marketing environment of the Chinese cosmetic market have made it necessary for the Shiseido Group to make changes in its management mechanism in order to adapt to these changes and better serve the market, but as a multinational company, it has not made rapid strategic adjustments to the changes in the Chinese skincare market, consumer psychology and purchasing power, which means that the lagging nature of Shiseido's management mechanism is a major disadvantage for the Shiseido Group.

5.2 Analysis of Internal Competitive Conditions

5.2.1 Opportunities in the External Marketing Environment

The Chinese cosmetics market is expanding. China has the second largest cosmetics market in the world and the fastest growing cosmetics industry of any major economy in the world. According to the Frost & Sullivan report, the cosmetics market in China is expected to grow rapidly from 2017 to 2021 due to the country's economic development and increased personal consumption expenditure. In terms of retail sales, the market size of China's cosmetics market will increase from RMB630.5 billion in 2017 to RMB946.8 billion in 2021, at a CAGR of 10.7%. the market size of China's cosmetics market (in terms of retail sales) will reach RMB1, 040.5 billion in 2022. See Figure 6 for more details.

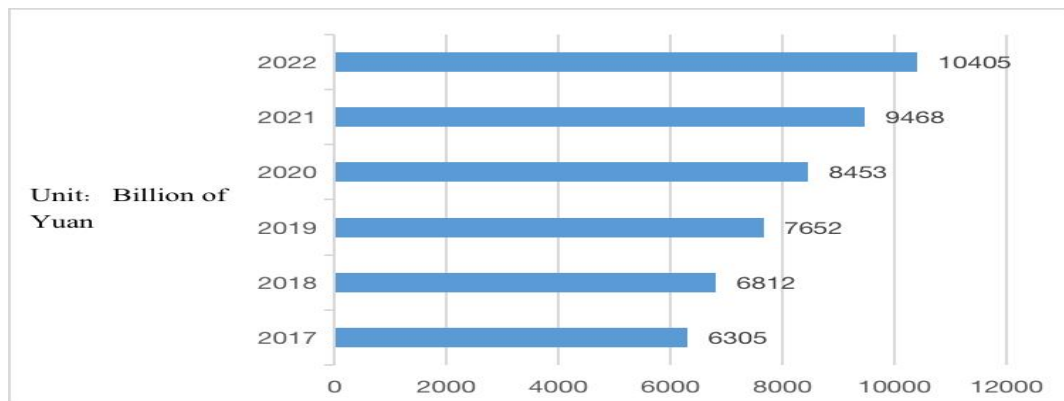


Figure 6 China Cosmetics Market Size 2017-2022

Source: Frost & Sullivan

Market potential due to increased consumer willingness and ability. With the increase in China's per capita disposable income and the changing consumer mindset of Chinese consumers, the skincare industry in China has seen an upgrade in the consumer base, brands and categories. In terms of consumer demographics, the middle class has increased and become the number one buyer of high-end cosmetics. In terms of skincare categories, the Chinese market has seen an increase in demand for skincare products, from the previous need for creams to today's need for a full range of skincare products such as lotions, creams, toners, sunscreens, essences, eye creams and masks. The demand for multiple skin care categories has created a broader market for skin care products. See Figure 7 for more details.

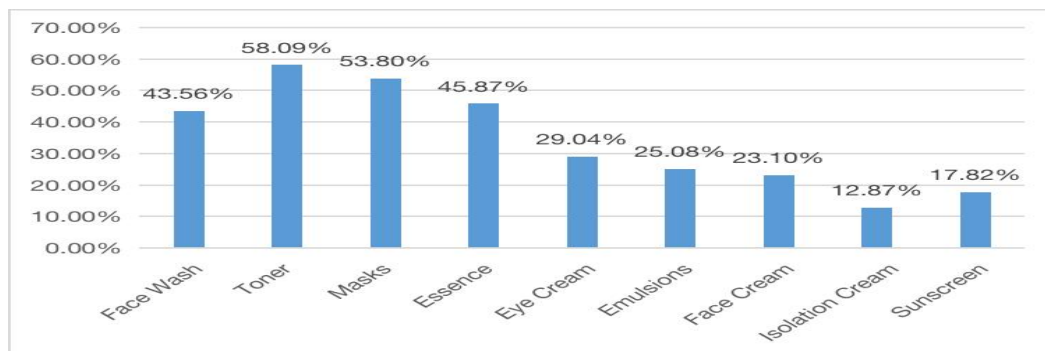


Figure 7 Types of skincare products used daily by Chinese consumers

Source: Questionnaire

In terms of high-end brands, consumers' attention and demand for high-end consumption has become more robust, with more and more consumers choosing to achieve both quality and quantity in beauty products and increase their own consumption investment. Despite the fact that 46.8% of people in this questionnaire have a monthly income of less than 2,000, a relatively high percentage of people still buy high-end skincare products. Details can be seen in Figure 8 of Chinese consumers' daily purchases of skincare brands. From the chart, we can see that Chinese consumers still have some purchasing power in the purchase of mid-to-high-end skincare products. For example, Shiseido's CPB, Shiseido and IPSA are all mid-to-high-end skincare brands, and these have shown strong vitality in the Chinese market. Similarly, L'Oreal Group's HR, Estée Lauder, Lancôme are also among the mid-to-high-end skincare brands, and although the proportion is not as high as that of the Shiseido Group brands, we can see that their share is also relatively high. Women aged 18-25 years old accounted for nearly half of the total in this survey questionnaire, so I think young groups like Chinese university students have strong spending power and purchasing power, and they prefer Shiseido's brands to those of global cosmetics giant L'Oreal, with purchase rates of both IPSA and Shiseido's skincare products exceeding 50%. This shows that Shiseido is more youthful in terms of consumer mass. Whereas brands like those owned by Estée Lauder Group and L'Oreal Group are actually more skewed towards middle-aged women in their consumer base.

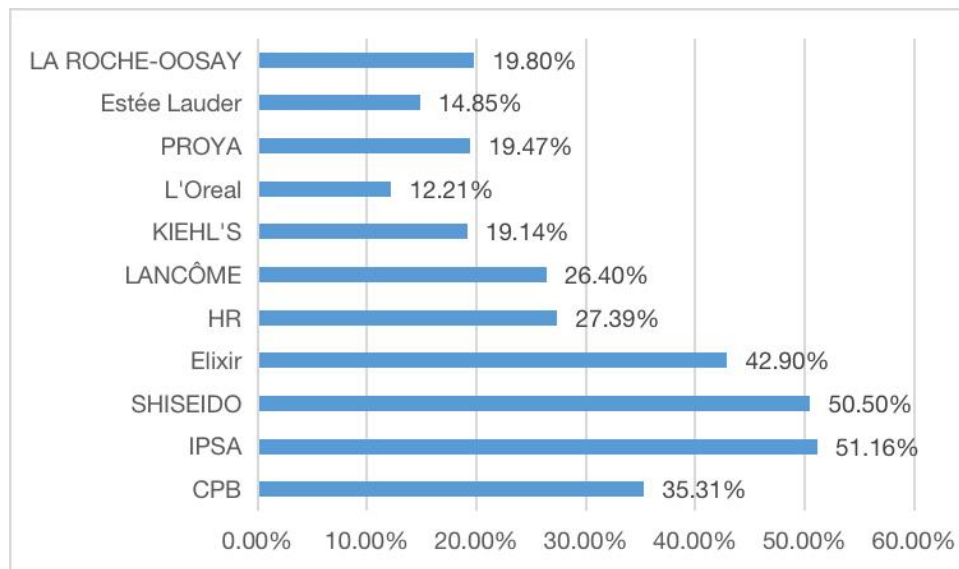


Figure 8 Brands of skincare products that Chinese consumers buy on a daily basis
Source: Questionnaire

5.2.2 Challenges in the External Marketing Environment

The rise of China's local skin care brands along with the growing strength of domestic skin care technology, domestic brands also gradually from the domestic consumer groups stand out, with its cost-effective and localized sufficient conditions, gradually become international brands "product flat replacement". The skin care category of Winona, PROYA they rely on the small red book, live with goods and other types of marketing channels, the development of less than three years has achieved a billion level of sales. Most international brands in the skincare category saw their Tmall sales decline in the first half of 2022, including L'Oreal, Lancome, Estée Lauder and Shiseido, while domestic brands such as Perrier and Winona saw their sales grow by 20%. The reason behind this is that local Chinese cosmetic companies have risen to the top in terms of research and development of skincare products. For example, local skin care companies such as Huaxi Bio are also conducting research into the components and processes involved in collagen. According to a survey, 63% of consumers are concerned about the price of skincare products, while consumers are most concerned about the quality of skincare products[16]. If domestic skincare brands can make progress in technology and have lower prices than international brands, they will still have great competitiveness in the Chinese market.

In conclusion, the diversification of domestic skincare companies in terms of marketing, their price advantage, and the progress made in the research and development of domestic skincare products, all offer new possibilities for the development of local Chinese skincare companies, and Shiseido should take a more active stance to deal with the test from the market (See Figure 9).



Figure 9 Factors that Chinese consumers focus on in skincare products
Source: Questionnaire

6. PROBLEMS WITH THE DEVELOPMENT OF SHISEIDO SKIN CARE PRODUCTS IN CHINA

6.1 No Standout Affordable Skin Care Brands

Since 2015, Shiseido has been promoting the concept of "VISION 2020", a consumer-oriented approach to rapidly enhance the value of its brands globally. In concrete terms, this means becoming more "local". In this year, Shiseido began to focus on the downstream market, and targeted several mid- and low-end brands specifically for the Chinese market, such as ANESSA, AUPRES, ELIXIR, HAKU, URARA all of which are mainly sold in offline supermarkets.

However, the offline CS channel, on which Shiseido relies, experienced a major turning point from boom to bust back in 2015, when sales of Shiseido's mass line cosmetics division in China plummeted by 25% for the year, and Shiseido's mass skin care products, with ANESSA, AUPRES, ELIXIR, as the core, officially went into decline.

Since then, Shiseido has completely replaced more than 200 products under AUPRES portfolio, and has completely renovated and refurbished its storefronts to deepen its market and expand its shop scale in third and fourth tier high-potential cities. Despite this, AUPRES failed to achieve the expected growth with its annual sales growing at a CAGR of only 8.5% during 2015-2020; over time, well-known brands such as HAKU, URARA have gradually lost their share in the market. In April 2020, sales of PURE&MILD in the offline channel were fully terminated. In early 2022, PURE&MILD and ZA were officially transferred by Shiseido, along with the offline business with only a few hundred shops remaining.

In summary, Shiseido has now suspended two of the three major evaluated skincare brands it created for its Chinese territory. Although Shiseido holds a place in the high-end skincare brands, it has no core brands in the mid- and low-end skincare market. Compared to it, L'Oreal Group has popular skincare brands such as L'Oreal and Richland, and Amore Pacific Group has popular skincare brands such as insfree and Laneige. L'Oreal Paris topped the sales chart in the 2022 Double Eleven One Day Mall beauty and skincare list, which shows that the mass skincare market in China still has a lot of potential. In this regard, the Shiseido Group must pay attention to the negative impact of channel deployment on mass line brands, allocate more resources to the channel sinking strategy, and cooperate with the online channel to achieve further growth in performance on the omni-channel model.

6.2 Poor Sales Performance of Existing Skin Care Brands in E-commerce Channels

Shiseido, a famous international brand, has not been selling as well as other international brands in the e-commerce channel. In November 2022, its official flagship shop sales have fallen outside the TOP 10, while Shiseido's sales in the high-end skincare market are not good, with its CPB's official flagship shop ranking 17th in the ranking. While L'Oreal Group's HR, which also belongs to the high-end skincare line, is ranked ninth in sales, well above CPB. Shiseido has not been able to generate high sales in the e-commerce channel as it missed the best time to develop it in 2019. In comparison to other brands, its discount activities in the e-commerce channel have not been very attractive to consumers and have not stimulated their desire to buy.

6.3 Single and Low Frequency Promotion

The purpose of promotional activities is to use star effect, media advertising, public relations and other means to build brand image and exposure, so as to create a good marketing environment and influence consumers' purchasing decisions. With the increasingly fierce market competition, enterprises pay more and more attention to brand publicity and promotion. In Japan's home market, Shiseido Group has been sticking to a relatively simple and low-frequency promotion strategy, which has been continued in China. Shiseido's products are mainly targeted at female consumers and have a high reputation in the Japanese market, so many young consumers are willing to buy products or services for it. However, China's soil is not suitable for a single and low-frequency promotion strategy, because low exposure will lead to low attention, which may lead to the risk of market marginalization for daily chemical companies.

L'Oreal Group has shown more prominent advantages than Shiseido Group in promotion. It is not only more innovative in promotion strategy, but also pays more attention to details in capital investment. L'Oreal has increased its mini app advertising since May during its 2022 promotion period, and the volume of its brand voice has increased significantly compared to the previous period. See Figure 10 for details. increased significantly compared to the previous period.

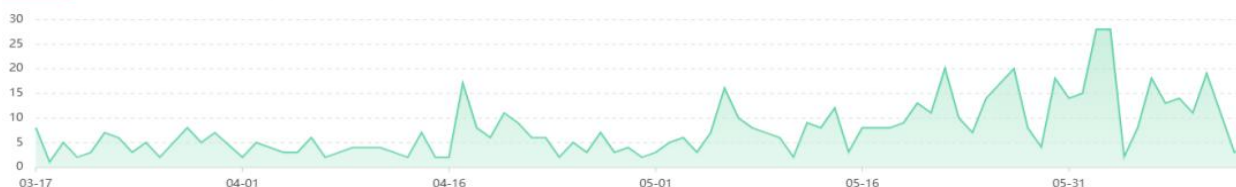


Figure 10 L'Oreal's public brand voice in the 2022.03.17-05.31

Source: L'Oreal Public

According to QUEST MOBILE's "2022 Consumer Brand Private Domain Layout Strategy Insights" report, L'Oreal ranked second in the ranking of private domain user size by channel in the beauty industry in March 2022, after Watson's in terms of the number of WeChat applet users. Shiseido, on the other hand, ranked only ninth in terms of WeChat applet user size, below L'Oreal (See Figure 11).

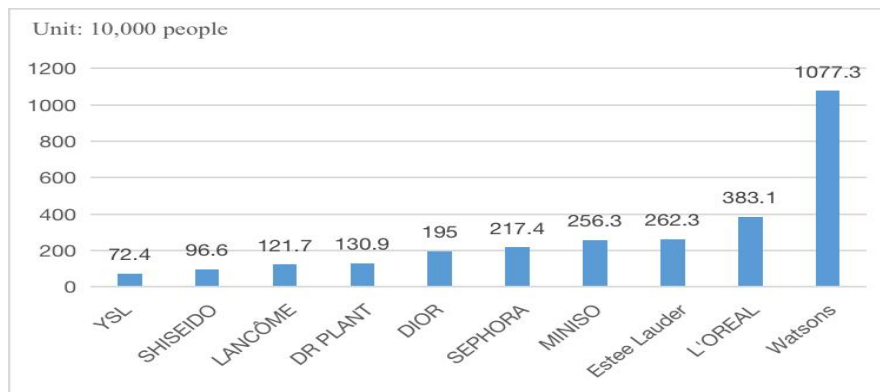


Figure 11 Top 10 brands in the beauty industry in terms of WeChat app user size, March
Source: Questionnaire

The survey shows that L'Oreal's public advertisements are mainly placed by celebrities in the fashion and beauty and skincare industries, highlighting its dominant position in the industry. Among the big names in the fashion and beauty sector, it aims to achieve higher product exposure and quality by enhancing product exposure and boosting seeding capabilities. During the 618 promotion, L'Oreal Group matched with fashion and beauty bloggers who matched the tone and audience, thus triggering promotional offers and increasing the conversion of product purchases. In addition, L'Oreal also engaged with its fans through social media to expand brand awareness. Shiseido, on the other hand, does not promote its products through multiple channels[17]. In terms of spending on celebrity endorsements, L'Oreal, Lancôme and Estée Lauder are still firmly in the top three, and Shiseido spends less on celebrity endorsements. The performance of Shiseido's business in China in the coming years will therefore depend on how long the dividends from its brand benefits will last.

In short, the Chinese market is averse to the old and needs to be incentivised by promotional strategies to maintain brand activity. The Shiseido Group's single promotion format and low-frequency promotion efforts are clearly no longer suitable for the Chinese market, and the Shiseido Group needs to recognise this problem and put more effort into its promotions.

7. SUGGESTED RESPONSES

7.1 Online Development of Mass Skin Care Products

At present, Shiseido's mass skincare products in the Chinese market are only AUPRES is more well-known, and unlike Japanese imported products that are only sold into premium department stores, AUPRES will choose to enter a variety of offline channels similar to department stores and specialty shops, thus covering a wider consumer base. However, with the strong development of e-commerce channels in the skincare market in China and the decline of traditional offline channels, AUPRES's skincare market in China is gradually being squeezed out. According to data released by Euromonitor, AUPRES's market share in China declined year-on-year from 2017-2020, falling to 1.5% in 2020 (See Figure 12).

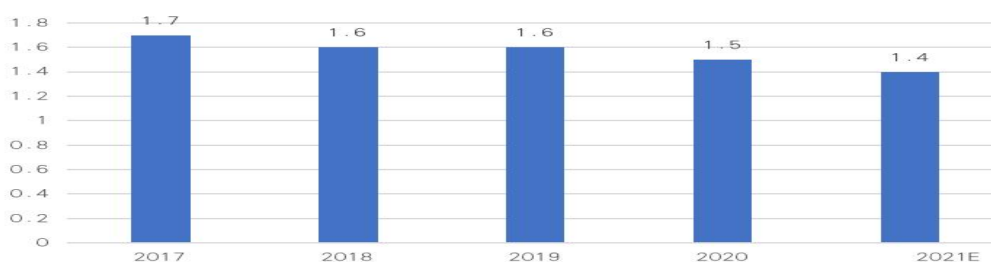


Figure 12 2017-2021E AUPRE market share in China
Source: Euromonitor

Although Japanese skincare products have been in China for a long time, some Japanese skincare brands have become entrenched and flourished in China. However, the development of the Red Booklet and Tiktok channels has led to the rise of a large number of domestic skincare brands that are more knowledgeable and sensitive to the Chinese market, more responsive to changes in the market, and with the price advantage, more domestic consumers are more willing to buy them. In the current Chinese market, publicity models such as Tiktok and Red Booklet are more likely to be recognised by consumers, especially young consumers, who are more receptive to emerging brands and focus on the effects skin care products bring to the skin, rather than just on whether the brand is a major international brand. According to the survey, young consumers in the Chinese market currently have high demands for hydration, oil control and acne relief, whitening and anti ageing, and Shiseido can develop new products for these. Shiseido needs to be clear

that relying solely on its past sales model and brand matrix is clearly not a competitive advantage, so Shiseido should strengthen its R&D efforts and launch popular skincare brands in China that are suitable for young domestic consumers, and use e-commerce channels as the mainstream sales channel (See Figure 13).

In addition, Shiseido could establish a closer relationship with Chinese beauty agency companies. According to research, many multinational beauty companies do not manage the operation of their online e-commerce channels themselves, but will instead entrust these operations to beauty agencies. This also shows us that beauty agencies will have a wider scope for development in the future. For example, Nesheng Technology is a new type of retail operator covering a wide range of cosmetics and daily necessities, and has cooperated with well-known brands such as Marumi, Katin and Han Hou. The range of services provided by Nesen Technology to major beauty companies covers the areas shown in Figure 14 below. At present, major domestic daily chemical companies have started to enter the Internet market, hoping to enhance their brand image through e-commerce platforms. The international cosmetics giant L'Oreal also has its own beauty agency operator, Net Camp Technology in Hangzhou. Similarly, Shiseido has searched for a beauty agency operator in China, the Shanghai-based Kunchi Group. Therefore, the launch of a mass skincare brand targeting women aged 20-25, with e-commerce channels as the main sales channel, could go a long way in increasing Shiseido's skincare market share in China in the future.

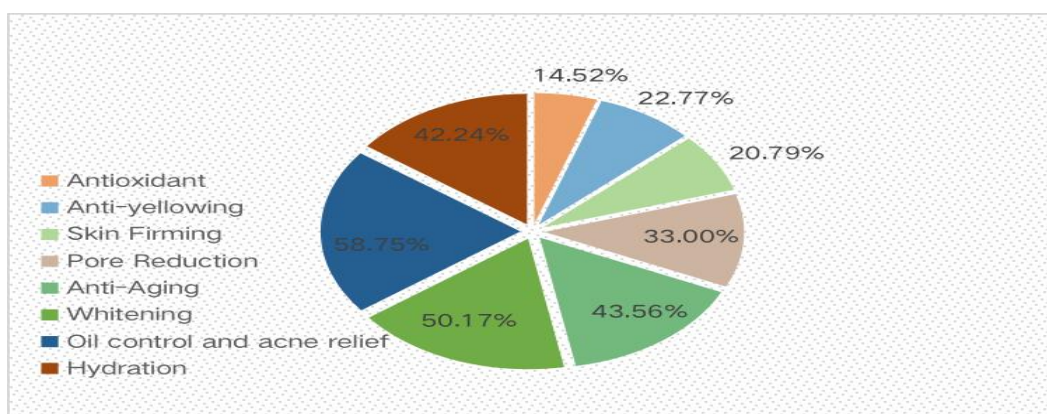


Figure 13 Chinese consumers' focus on skincare efficacy

Source: Survey questionnaire

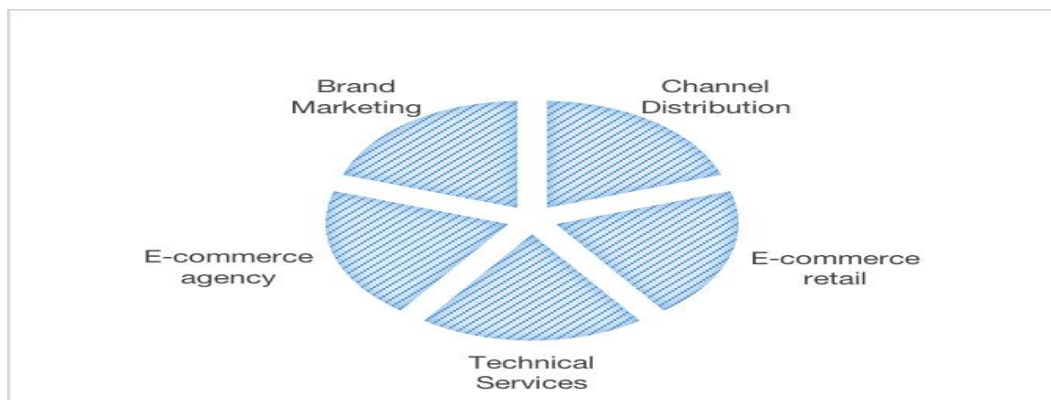


Figure 14 Services provided by Nirvana Technology to major beauty companies

Source: Nirvana Technology Official

7.2 Offline Focus on High-end Product Lines

The offline focus on high-end product lines is something Shiseido needs to focus on now. Shiseido needs to adopt strict product lifecycle management to consolidate and reduce excess brands and select those that can meet profitability criteria. Shiseido needs to focus on high-end skincare products in the category, so in the offline counter, Shiseido's skincare products need to make customers feel that they are good value for money and also need to be accompanied by some medical aesthetic services to provide customers with a skincare experience that goes beyond the value of the skincare products themselves.

Shiseido maintains an investment cost of over 20% of its total cost in R&D. Shiseido believes that the company's competitiveness and profit margin can only be maintained through continuous R&D. In 2022, Shiseido Beauty Innovation Fund invested RMB100 million in Trautec, a Chinese manufacturer of recombinant collagen biomaterials. In order to attract more high-end skincare customers, Shiseido should make full use of its technological advantages by applying cutting-edge technologies to its high-end skincare products, enhancing the service capabilities of offline high-end skincare counters and adding VIP-oriented services such as skin management. In addition, to increase its market

share of high-end skincare products, Shiseido can expand its influence in e-commerce channels by launching buy-one-get-one-free or discounted marketing campaigns in its official flagship shops.

7.3 Use of New Media for Product Promotion

The Shiseido Group's existing promotion and publicity methods are conservative, with promotional resources mainly focused on celebrity endorsements, TV commercials and public relations, without innovative forms based on consumer preferences, and therefore in danger of losing touch with new consumer groups, with younger consumer groups gradually losing interest in Shiseido's simple promotional forms. It is recommended that Shiseido advertise and promote its products through Live and Red Booklet, but of course Shiseido has to consider whether the stars themselves and the brand fit together when doing celebrity endorsements. For example, in February 2023, Shiseido announced comedian Huang Bo as Shiseido's Time Glass ambassador, Shiseido's Time Glass series of products is its "expensive line", focusing on the firming and plumping effect[18]. Although Huang Bo has gained popularity in the industry and among his fans over the years through his acting skills, high emotional intelligence and sense of humour, his image has little to do with the skincare brand's Precious Women line, which has not created a strong consumer appetite despite its popularity and flow.

Shiseido had previously missed out on promoting its online channels in China because it lacked acumen in the Chinese market, and the separation of the decision-making body and the implementing body resulted in its strategy not being able to react immediately as the market changed. Shiseido now needs to seize the opportunity to make the most of new media communications for its skincare products and thereby improve its brand image among young consumers.

8. CONCLUSION

Chinese skincare companies can learn from the Shiseido Group's competitive strategies in the China market: focus on brand value and reputation, gain a deeper understanding of local market needs, enhance R&D and innovation capabilities, and adopt diversified marketing channels. These measures will help local Chinese skincare companies to improve their market competitiveness and market share and expand their export market share.

The separation of Shiseido's decision-making body and executive body has resulted in a decline in its share of the Chinese skincare market. Therefore, it is important for local skincare companies to gain an in-depth understanding of local market demand and conduct comprehensive market research in order to achieve greater success in overseas markets. Secondly, local skincare brands should develop a marketing strategy that suits their own development, taking into account their own circumstances. The Shiseido Group's single-channel approach has failed to meet the demand for penetration of emerging consumer groups, so domestic cosmetics need to draw on the refinement of online channels in order to achieve full coverage of the omni-channel model. In the channel strategy, it is important to make full use of social networks to expand brand influence. In the new media environment, Shiseido has not fully taken into account the changes in Chinese consumers' access to information and preferences, which reminds domestic skincare companies that when expanding into overseas markets, they must gain an in-depth understanding of the way local consumers access information and adjust their marketing strategies according to it.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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