

# ***Cosmetic Industry Insights and Marketing Strategy Analysis of L'Oreal in China***

**Lv Meizheng<sup>1,a,\*</sup>**

<sup>1</sup>*Chongqing Normal University*  
*a. 18830436066@163.com*  
*\*corresponding author*

**Abstract:** With the expansion of China cosmetic market, many cosmetic groups are engaging in expand their market share. However, the development of cosmetics led to diversified consumers' needs. Some of customers want to get more skincare products for sensitive skin meanwhile the others care about makeup products' characteristics. Various demands have led to the constant updating of the development strategies of the cosmetic groups. Through reading the literature and research reports on Chinese cosmetics in recent years, it is found that the Chinese cosmetics market is oligopolistic and L'Oreal is the biggest one in several big international groups. However, the rise of domestic cosmetic brands makes these big international groups feel threatened. Domestic brands have a better understanding on physiological and psychological needs of Chinese, even Asian consumers, which make them have the strong competitiveness. In the paper, 4Ps model and Porter's five forces model are used to analyze the current situation of the cosmetics market and the competitiveness of L'Oreal Group. Finally, some implications are demonstrated from the perspective of culture, brand introduction, optimization of advertising structure, and consumers' demands to help L'Oreal improve its competitiveness.

**Keywords:** L'Oreal, cosmetic, 4P, Porter's Five Forces model

## **1. Introduction**

By 2019, the scale of China cosmetics marketing continues to expand. The marketing size has been 334.56 hundred million dollars. The subdivided cosmetics have over 200 kinds. In 1981, Foreign brands entered China and became the dominant player in China cosmetic factories. By 2012, domestic brands become developed. In 2019, China's skincare products accounted for 73.7% of total cosmetics sales, and makeup accounted for 22.1% [7]. Perfume is only 4.2% [7]. China skincare product marketing is very huge. By 2019, China cosmetic industry's size has grown to 1568.6 hundred million yuan. By 2018, China Consumption per capita of cosmetics account was 102.3 yuan, but Japan, Korea, the US, and the UK were 8.9 times, 8.1 times, 3.9 times, and 3.8 times that of China [7]. So, there is a huge incremental space in China cosmetic marketing. The size of the Chinese market grew from US\$33.177 billion in 2011 to US\$73.203 billion in 2020, with a compound growth rate of about 9.22%. COVID-19 has had a greater impact on the overall economy, but the scale of the cosmetics market in this environment can still maintain a positive growth rate of 6.83%, which fully reflects the unlimited potential for the future development of China's cosmetics market. Compare to Physical stores, e-commerce develops very fast. Consumers are more likely to buy cosmetics online. From

2015 to 2019, the transactions of China e-commerce have grown to 34.8 hundred million Yuan. The compound annual growth rate is 13.7%. L'Oreal was founded in France in 1909. It is the biggest cosmetics manufacturer. It sells all major beauty products, from skincare products to makeup products, fragrances, and hair products.

In 1996, L'Oreal entered China and set up Suzhou L'Oreal Company with Suzhou medical college. In the same year, L'Oreal established a cosmetics manufacturer in Suzhou. In 2003, they acquired the domestic brand "xiaohushi". In 2004, they acquired another domestic brand "Yu Sai". L'Oréal's sales rose 5.3% against the market in the first half of 2008. Because of the increase of high-income people in China, L'Oreal expand its marketing. However, these years, domestic skincare brands have emerged and occupied a position in the mid and low-end market. Due to technical barriers, it is hard for domestic skincare products to become high-end products. In this case, L'Oreal needs to adhere to its position in the cosmetics industry.

Due to the low costs of raw materials of makeup products which only about counting for 15% of all costs, there are a lot of excellent domestic makeup products emerged. With the influence of Covid-19, international makeup product sales decreased a lot. In particular, some domestic makeup products' quality is getting better than L'Oreal's mid-range products. So, it is very important for L'Oreal to improve the product's quality and characteristics.

From 2002 to 2011, China cosmetic marketing was dominated by international brands. After 2011, China domestic brands were recovering and have opened China low-end cosmetic market, such as Bloomage Biotech own's a series of skincare brands, and PROYA owns Caitang. Even though Bloomage Biotech and Winona are famous for their technology, their skincare technology needs to be improved. So, International brands still take a large part of China cosmetic market. The international company plans their marketing by different groups. However, China domestic brands have taken half of China low-end and middle-end cosmetic market. It is very important for L'Oreal to deal with the trend of China domestic cosmetic brands.

## 2. Literature Review

### 2.1. China Cosmetic Industry

In 2010, Claude Chailan did research about brand-portfolio management and concluded that brand combination within a portfolio is a key factor for a company's development, growth, and risk management; he also mentioned three characteristic stages [6].

In 2011, Xiaowang, Jiangqingdong, yangchenwen, and fu zheng give research on the components of business models and models on the value creation relationship between Estee Lauder and L'Oreal. By CR framework of business and empirical analysis to conclude that the CR framework has high ascendancy for precisely identifying the components of business models and expressly modeling the value creation relationship among these cosmetic companies [4]. In 2014, Francesca Ricci used the M&A model to analyze L'Oreal Group's 29 acquisition cases. He analyzed the body shop case which is controversial at the beginning but finally get successful. He mentioned that there are three key factors in acquisition. They are financing methods, if the acquired company was a private company and if the acquired company is diverse [5]. YanQing made a research about the current situation and application of L'Oreal's diversity brands strategy in China cosmetic market. He concluded that subdividing the market led to the market strategies and brands' position and different brands need to account for different groups. However, this research lack of comparison between China cosmetic market and the international cosmetic market [9].

In 2016, Zou Xiaozhou analyzed L'Oreal's two acquisitions in China. L'Oreal group acquisitions are clearly purposeful and adept at developing new sales strategies after the acquisition [12]. LiangLiwen and DongHonfei did comprehensive research about L'Oreal's China local strategies.

They give a conclusion that L'oreal has good sales, but L'Oreal needs to compete not only with international brands but also with local brands. L'oreal should keep a localized strategy and make technological innovations to adapt to the change in the cosmetic market [10]. In 2020, ZhangHubo did research about L'Oreal's Fan operation status. L'Oréal has reaped huge benefits in terms of fan operations, but enterprises also need to refine operations, accurately locate celebrity endorsements and KOLs, and cultivate fan loyalty after obtaining traffic. Enterprises themselves also need to establish professional teams to operate. In the first half of 2020, China domestic and foreign cosmetics financial report. This report analyzed sales of several domestic cosmetic companies and international cosmetic companies in the first half of 2020. The sales of Winona, Bloomage Biotech, PROYA, and Fruida are all improved, but Perfect Diary's total loss was 700 million yuan. In conclusion, the Covind-19 has little influence on the cosmetic market. Several international cosmetic enterprises' sales are as much as tens of billions of revenue. China domestic companies' revenue is also as much as billions of revenue, indicating that China's cosmetics enterprises' sales revenue growth potential is huge [8].

## 2.2. Porter's Five Forces Model

In 2014, Porter's five on the medical device industry in Europe written by Petra Maresova and Kamil Kuca claimed that an interesting market is China due to the growing population, GDP growth, and investment in innovations. The European market is very competitive due to the number of firms and the patents in the field of medical technologies. In terms of population and GDP development, the given situation is somewhat negative rather than positive [16]. Osiany Nurlansa used Pote's five forces to analyze Airbnb, he concluded that network Orchestrator, outperform companies with other business models on both compound annual growth rate and profit margin because the value creation is performed by the network on behalf of the organization reduces the company's marginal cost. Airbnb provides different services and supervision. Depending on Porter's five forces, this research subdivided different elements. Based on different metrics, he analyzes the strengths and weaknesses of other competitors in the market and Airbnb's efforts [17].

## 2.3. 4Ps Model

In 2014, Liuyang used the 4P model to analyze the relation between production, price, place, promotion, and luxury consumption behavior. By 4Ps, luxury companies subdivide their consumers, which can help companies learn more behavioral characteristics. Luxury companies change their market strategies efficiently.

In 2019, ZhangLisha used the 4P theory to analyze the L'Oreal group's market strategy in China. By 4P structure and empirical analysis, there are three conclusions. First, L'Oreal group products' strategies are trying to combine localized and internationalized. Second, the L'Oreal group set up a multi-tier pricing mechanism to meet different income groups. Third, L'Oreal should explore market increments [15].

## 3. Chinese Make-up Industry Analysis

From 2011 to 2020, the market concentration of China's cosmetics industry showed a downward and then rising trend. In 2016, Cr3/5/10 reached a trough, which was 22%, 27.8%, and 38.6% respectively. In 2020, Cr3/5/10 were 25.6%, 32.2% and 42.9%, respectively. In 2022, China cosmetic market size has increased to 340 billion yuan, the compound growth rate has reached 8.81%. Now, cosmetic products are varied, but the growth rate of a category is slow. The cosmetics market has formed a relatively stable situation of coexistence of multiple varieties. Till 2019, skincare products accounted

for the largest proportion of China cosmetic market, reaching 51.16%, and makeup accounted for 11.55% [7].

### **3.1. Current Competitor**

Based on Euromonitor's data on different market types, China's cosmetics high-end market concentration is relatively high, and its CR3, CR5, and CR10 account for 41.6%, 51.1%, and 64.5% in 2020, respectively. The concentration of high-end products is mainly among several international brands. Shiseido is more focused on skincare products and Estee Lauder Group is more focused on high-end products. L'Oreal is more diversified in terms of price and product variety, so L'Oreal's advantage in group cosmetics companies is low-end fast-moving consumer products.

Competing with L'Oreal in the low-end FMCG market are domestic products that are developed in recent years. But the popularity and R&D technology of domestic products are relatively low, so L'Oreal has certain advantages. In recent years, L'Oreal has begun to apply its high-end research and development results to low-end products, which makes many consumers choose L'Oreal Group's products.

### **3.2. New Entrant Threat**

In the first stage, the cost of a new player entering the cosmetic industry is low. Many local factories provide product research, package designing and delivery, and storage. But due to the limitation of capital, it is difficult for a new entrant to form large-scale production and build an R&D and marketing system. It's easier for large cosmetics companies to raise capital. Large-scale production greatly reduces costs. They have a wider variety of businesses that allow them to balance the break even. Most international brands spend time and money on quality, promotion, and service to get acceptance. So, the brand barrier is a big problem for new players.

#### **3.2.1. Barriers to a Large-scale Operation**

L'Oreal has its own cosmetic development department and factories. Large-scale production increases L'Oréal's bargaining power over raw material suppliers. Cooperation with dealers decreases the cost of sales. This helped L'Oreal have a good capital flow. On the other hand, new players' risk resistance is very low. They must not only compete with large-scale companies but also face funding constraints.

#### **3.2.2. Product Quality Barriers**

Some international cosmetic companies develop production by their own institute, cooperate with some institutes, or purchase patents. These ways raise product development efficiency. As the government publishes more strict rules, the composition of a new product needs to be considered. The increase in R&D costs has made it difficult for new players to enter China cosmetic market. Due to the intensification of market competition, oligopolistic enterprises have to pursue high efficiency.

### **3.3. Alternative Threats**

With the development of society, technology and services, there are more and more threats from alternative products, such as beauty and health products, home beauty instruments, beauty salons, medical beauty hospitals, sports, etc. However, most consumer which can afford alternative products is a high consumption group that will not give up their daily skincare or makeup. Also, the frequency of medical beauty and beauty salons is low, so they cannot replace daily cosmetics.

### **3.4. Bargaining Power of the Buyer**

Buyers of the cosmetic industry includes end dealers, retailers, and end consumers. Dealers and retailers with large scale mean they have bigger bargaining power. Meanwhile, L'Oreal has great product differentiation and high brand awareness, so they have more bargaining power. In addition to the official stores, they also distribute products to some dealers, such as Sephora and Watsons. So consumers can choose channels with a better price-performance ratio. In the era of e-commerce, the conversion cost of buyers is most correlated with brand credibility and customer value perception. Due to its long history, L'Oreal built a deep relationship with consumers. Because of its diversified culture, L'Oreal is capable of meeting different customer demands. These increased L'Oreal's bargaining power.

#### **3.4.1. Four Factors Can Influence the Consumer's Transaction Costs**

L'Oreal distributes its product to some offline dealers, such as Sephora and Watsons. This is convenient for consumers to try L'Oreal products even if they buy products online. L'Oreal's customer service management is standardized. Salers' product knowledge is detailed, high product quality, convenience shopping, and variety of product richness lead L'Oreal's products are easier to be recognized by consumers. Because L'Oreal has entered China cosmetic market for a long time, they have a lot of consumers. If consumers want to switch to other brands' products, they have to spend time comparing these products. Time and energy consumed by decision-making switching behaviors are more sensitive. This is why L'Oreal is more likely to retain old customers.

#### **3.4.2. The Risk Sensitivity of Customers**

L'Oreal has professional team management and its own R&D organization. For globalized products, L'Oreal uses more resistant materials in R&D. The number of experiments is greatly reduced customer risk sensitivity.

### **3.5. Bargaining Power of Supplier**

Domestic raw material suppliers are weak in research technic and test systems. They usually provide basic moisturizing function raw materials, such as hyaluronic acid, and ceramides. L'Oreal has a stronger bargaining power on low-end raw materials. Due to the limitation of the key raw material technology, especially high-end materials, the cosmetics industry has a high dependence on foreign manufacturers. The world's nine major raw material suppliers occupy most of the cosmetic raw material market, especially BASF, so cosmetics companies generally have low bargaining power in terms of suppliers [7]. L'Oreal Group, as an international cosmetics group, has a huge demand for raw materials, so compared with other cosmetics companies, its bargaining power is stronger.

## **4. Marketing Strategy of L'Oreal**

### **4.1. Product**

L'Oreal uses a pyramid product model to meet the needs of different customer groups. Compared with other international cosmetic companies, L'Oreal's products are very comprehensive, taking into account the needs of the general public and developing products that meet the needs of minority groups. In addition to satisfying different consumer groups, L'Oreal also takes into account the physiological, psychological, and spiritual needs of customers. For example, la roche-posay is a brand specially designed for people with sensitive skin, while Xiurico can meet the needs of people who

want professional skincare. Garnier can meet the needs of environmentalists. With diversified products, L'Oreal's brands can cover a wider range of people.

#### 4.2. Localization

When L'Oreal first entered China, in order to quickly gain access to the Chinese cosmetics market, it acquired three brands and merged the little nurse with the R&D center in Canil to meet the needs of Chinese customers. Subsequently, L'Oreal cooperated with Suzhou Medical University to establish a research and development center. Till 2005, in order to further develop the Chinese market, L'Oreal set up L'oreal global R&D center in shanghai. in February 2021, Maybelline, a brand owned by L'Oreal Group, was newly listed as a set of lip glaze colors, specially customized for the Chinese consumer.

#### 4.3. Price

The life cycle of cosmetics is short and the technology changes rapidly. Therefore, R&D strength makes L'Oreal's products more forward-looking and innovative. In a market without competitive products, it is more suitable to adopt the product life cycle pricing method. L'Oreal increased its publicity efforts in the early stage to take more market share. L'Oreal's price reduction in the later period will suppress competitors, and at the same time, it will update its products, which will lead to a new life cycle. For example, the ampoule Mask, which was launched by L'Oreal in 2019. When the

first generation first entered the market, it was priced at one piece in 20 yuan, and the promotional price was one piece in 12 yuan. Before the second generation was released, L'Oreal lowered the price to one piece of 10 yuan in order to clear the inventory of the first generation. When the second generation is on sale, the price is one piece in 25 yuan, and the price of the promotional festival is one piece in 20 yuan. L'Oreal also adopts different pricing strategies for middle-end and luxury products. Middle-end products are more suitable for consumers who want to high-cost performance.

In terms of mid-to-high-end brands, L'Oreal offers great discounts during promotional festivals. Consumers are often price-sensitive. The price directly affects consumers' choices. But when it comes to luxury products, the discount is usually smaller, because L'Oreal's luxury products have a low-cost performance and the reputation drives consumers to buy these products.

#### 4.4. Promotion

L'Oreal has very rich advertising ways. In order to expand the market, L'Oreal shoots multiple advertisements which will be applied on different AD platforms by shooting different ethnicities, international stars, local stars, and models [15]. With the development of short video and live commerce, L'Oreal cooperated with Beauty One in the BA project to train online salespeople, and achieved this in the form of a one-to-many online sales service. Because of the online BA celebrity effect, this project has greatly improved the loyalty of consumers. Beauty adviser, which is consistent with L'Oreal's corporate image, deepens L'Oreal's corporate image in public psychology.

L'Oreal collects consumers' purchase feedback through the company's sales database and uses the company's customer relationship maintenance platform CRM system to understand consumers' feedback and needs in more detail. Offline purchase channels provide a gift for customer feedback. L'Oréal encourages customers to fill out usage reports online.

#### 4.5. Place

L'Oreal has a comprehensive channel development in China. In addition to opening physical stores in major cities, L'Oreal also sells its products to hair salons and duty-free shops. A larger customer population increases sales potential. It has acquired the market in small and medium-sized cities through the acquisition of local brands. Due to the influence of politics and culture, L'Oreal's sales channels are gradually localized. In addition to large-scale sales channels, regional small sales channels and individual stores allow L'Oreal's sell products to consumers living in fourth- and fifth-tier cities [15].

With the development of e-commerce, L'Oreal opened its flagship store on different e-commerce platforms or set programs on different social media. They also give the franchise to franchisers on e-commerce platforms to sell their products. The BA project multiple live commerce in a variety of platforms or apps form a multi-contact flow matrix.

#### 5. Conclusion

Through the Porter's five forces model and 4p theory analysis, L'Oreal has fewer main competitors in China's cosmetics market. Its influence is great, and its R&D technology is reliable, so customers are more likely to choose L'Oreal's products. The combination of online and offline improves the shopping experience of customers. Localization and social media projects have made L'Oreal gain huge profits in China. But L'Oreal's marketing localization is not good enough. L'Oreal's Kol is mainly based on ethnic diversity and European and American makeup bloggers, but Chinese netizens prefer Asian makeup bloggers. Therefore, L'Oreal should pay attention to the needs of Chinese netizens and better localize its marketing.

Although L'Oreal has achieved success in marketing and product sales in China, the sales of the three brands it acquired in China have been bleak in recent years. In the past three years, L'Oreal tried to take the promotion route of Chinese culture by promoting Yusai, but it ended in failure because of unclear product positioning and poor product quality. So L'Oreal changed its strategies. It introduced several new brands which are popular but had not entered China and redeveloped NYX, a brand is very popular for five years. In the future development, L'Oreal should optimize the advertising structure of low-end products, truly understand the psychology and needs of Chinese consumers, and make an in-depth analysis of Chinese culture, instead of developing products based on foreigners' stereotypes about China.

#### References

- [1] Mark, K., & Maurer, C. (2010). *The marketplace for case solutions. L'Oreal SA: Rolling out the Global Diversity Strategy—Case Solution. Harvard Business Review (910C26-PDF-ENG)*.
- [2] Dörner, N. (2019). *L'Oreal SA-consumer goods: a beautiful company at a luxurious price (Doctoral dissertation)*.
- [3] Ulaş, S. (2020). *Augmented Reality in Luxury Brand Communication in The Digital Transformation Process: L'Oreal Example . OPUS International Journal of Society Researches , 15 (21) , 12-33 . DOI: 10.26466/opus.577165*
- [4] Wang, X., Dong, J. Q., Chen, Y., & Zheng, W. F. (2011, September). *Modeling the value creation through business models: Cases study of Estee Lauder and L'Oreal. In 2011 IEEE 18th International Conference on Industrial Engineering and Engineering Management (pp. 1708-1711). IEEE*.
- [5] Ricci, F. (2014). *L'Oreal acquisition policy: the body shop case study (Doctoral dissertation)*.
- [6] Chailan, C. (2010). *From an aggregate to a brand network: a study of the brand portfolio at L'Oréal. Journal of Marketing Management, 26(1-2), 74-89*.
- [7] *Prospective Industry Research Institute. 2021. Analysis of China's cosmetic industry market scale and development prospect in 2021. [online] Available at: <<https://bg.qianzhan.com/trends/detail/506/210604-f44a2af9.html>> [Accessed 26 May 2022].*

- [8] Ma, X. and Zheng, N., 2022. Rapid rise of local cosmetics. [online] Scicat.cn. Available at: <<http://www.scicat.cn/nn/20220313/2225686.html>> [Accessed 26 May 2022].
- [9] YanQing.(2014).L'Oreal Group Multi-brand Management Research (Master's Thesis, Soochow University).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD201501&filename=1014297184.nh>.
- [10] Liang Liwen and dDong Hongfei.(2018).L'Oreal group localization strategy in china. *Times Finacial*(21),233-234.
- [11] Zhang Tingting.(2014).Research on Influencing Factors of Customer Switching Cost in E-commerce Environment (Master's Thesis, Southwest University).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD201402&filename=1014258882.nh>.
- [12] Zou Xiaozhou.(2016).Analysis of L'Oreal Group's M&A Strategy in China (Master's Thesis, Jilin University).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD201602&filename=1016177867.nh>.
- [13] Hua Lei.(2020).A Comparative Study of Estee Lauder and L'Oreal's International Management (Master's Thesis, Heilongjiang University).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202101&filename=1020096174.nh>.
- [14] Zhang Meng.(2021).A Comparative Study of L'Oreal and Shiseido's Marketing Strategies in China (Master's Thesis, Heilongjiang University).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD202102&filename=1021063481.nh>.
- [15] Zhang Lisha.(2019).Research on L'Oreal's Marketing Strategy in China (Master's Thesis, Shanghai Academy of Social Sciences).<https://kns.cnki.net/KCMS/detail/detail.aspx?dbname=CMFD201902&filename=1019051102.nh>
- [16] Maresova, P., & Kuca, K. (2014). Porters five forces on medical device industry in Europe. *Military Medical Science Letters*, 83(4), 134-144.
- [17] Nurlansa, O., & Jati, H. (2016). Analysis porter's five forces model on Airbnb. *Elinvo (Electronics, Informatics, and Vocational Education)*, 1(2), 84-96.
- [18] Khan, S. (2013). *L'OREAL MARKET STRATEGY AT CROSSROAD. UNIVERSITY*, 93.