

Analysis of Cosmetic Pricing Strategies in the Online Environment

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Abstract: In recent years, the development of the internet has entered a new era, and online shopping has also achieved widespread popularity. In the online environment, the choices of cosmetics have become more diverse, and competition among various products has become more intense. Cosmetics companies need to adopt corresponding pricing strategies to help them achieve greater economic benefits. In order to explore the pricing strategy of cosmetics under the online environment and help cosmetics enterprises to better adopt cosmetics marketing, this paper analyses consumer' psychology in their consumption choices and combines the general laws of cosmetics pricing in online marketing. It is found that behavioral economics theories such as mental accounting, loss aversion, frame effect and anchoring effect are widely used in commodity pricing. It affects consumers' choices of cosmetics. The paper concludes that cosmetics can be priced through low-priced penetration, brand effect, and tiered pricing in the online environment, helping cosmetics companies better carry out marketing activities in the online environment and promoting further development of the cosmetics industry.

Keywords: cosmetics pricing, behavioral economics, online marketing, pricing strategies

1. Introduction

Behavioral economics refers to the economic theory that takes people's behavior patterns and decision-making principles when making decisions as the research object. By studying people's behavior and decision-making, it can be better understood the reasons behind human behaviors and formulated more targeted policies and decisions. To be exact, behavioral economics is a subject between psychology and economics. It extensively uses psycho-analytic methods to study people's economic behavior and constructs theories based on reality, thus changing the traditional analytical methods based on abstract assumptions. This paper analyzes the pricing strategy of cosmetics under the online environment with the help of the relevant theories of behavioral economics.

Against the backdrop of the rapid development of the Internet, various industries have actively adopted online marketing models to enhance corporate economic efficiency and achieve marketing innovation through the internet, including cosmetics. In the marketing process of cosmetics, the role of online media cannot be ignored. Compared to traditional marketing methods, consumers pay more attention to online media marketing, which can increase consumers' attention and loyalty to cosmetics brands [1]. At the same time, online marketing can also strengthen the connection between enterprises and consumers, converting online traffic into actual sales [2]. When formulating marketing strategies,

enterprises generally take attracting consumers to engage in purchasing behavior as the starting point. From the perspective of cosmetics, although e-commerce platforms have brought good sales performance to cosmetics, due to the unique nature of cosmetics, enterprises must pay attention to the on-site experience of consumers. They must not only develop e-commerce channels, but also ignore the attractiveness of situational experiences to consumers. They must accurately convey the brand image to consumers in order to ensure long-term purchasing intentions [3]. Chinese cosmetics industry consumers often pay more attention to external clues when selecting products, which are product attributes and brand value. There-fore, if cosmetics companies want to create consumer value, the key is to focus on enhancing product brand value and giving the brand itself more attractiveness [4].

Due to the open nature of the internet, the prices of products are relatively transparent, and the pricing level is gradually approaching the same level. For cosmetics companies, in the pricing process, it is not only necessary to study the pricing level, but also to understand how much money consumers are willing to pay for purchasing the product through various means, in order to help develop more targeted pricing strategies and obtain higher enterprise benefits and market share.

This article first analyses the current situation of online marketing and identifies the problems that exist in current online marketing strategies, especially pricing strategies. Secondly, through the analysis of consumer psychology with the help of behavioral economics theory, it provides a theoretical basis for enterprises to price cosmetics under the online environment. Then, based on the analysis, pricing strategies for low price penetration, brand effect, and tiered pricing are identified. The low-price effect helps companies quickly capture the market by setting lower prices. Brand effect achieves continuous brand value output through the use of online channels, thereby achieving higher economic benefits. Ladder pricing helps enterprises achieve higher returns to the maximum extent possible in the online environment by setting targeted prices based on different products and populations. Finally, it summarizes the shortcomings of the article and provide prospects for future research.

2. Analysis on Consumption Behavior of Cosmetics

2.1. Current Situations of Online Marketing

After years of development, the cosmetics industry has maintained stable growth in market size. In 2022, the global cosmetics market reached its maximum size in nearly a decade, reaching \$565.2 billion¹. Cosmetics have increasingly become a rigid demand for consumers. With the development and popularization of the Internet, consumers' shopping habits have also changed. Cosmetics companies are paying more attention to the development of the online shopping market and choosing to shift from traditional marketing methods to online marketing. Online marketing has unique advantages such as time-saving, labor-saving and money-saving [5]. The development of the Internet becomes both an opportunity and a challenge for cosmetics companies.

At present, there are two main types for online sales of cosmetics. One type is online sales conducted on a website built by cosmetics companies. This method is often adopted by large cosmetics companies, which provide direct online ordering functionality on their established brand websites. For example, Lancôme of L'Oréal Group adopts this method. The other type is cosmetics online sales through third-party e-commerce platform, such as Taobao in China. The sellers participating in third-party online sales platforms can be enterprises (B2C) or self-employed (C2C) [6]. Therefore, this online sales method is currently the main body of cosmetics online sales, accounting for over 90% of the market share of cosmetics online sales.

¹ Data sources: Euromonitor. <https://www.euromonitor.com/>

With the continuous deepening of online marketing awareness, it has helped cosmetics companies strengthen their ties with consumers, enhance consumer confidence in products, and increase customer stickiness. The rapid development of online marketing will further accelerate, and online marketing will enter a new era of explosive development and usher in new brilliance.

2.2. Applications of Behavioral Economic Theories in Consumer Behavior

2.2.1. Mental Accounting

Mental accounting refers to people dividing objectively equivalent expenses or benefits in reality into different accounts mentally. Because of the existence of mental accounts, people often engage in many irrational consumption behaviors, violating some simple economic algorithms when making decisions. The emergence of online marketing has prompted cosmetics companies to break the traditional marketing path of e-commerce. The marketing path has been upgraded from the original passive production of products - promotion of goods - operation of products to active search for target customers - understanding customer needs - operation of customers [7].

Currently, the growing trend of online live streaming, as a combination of marketing methods for cosmetics companies, has rapidly integrated with offline sales and become the most fashionable emerging business format. The new promotion model has a more hierarchical impact on consumers' mental accounts. The sense of presence and interactivity have broken down the cognitive barriers between consumers and products. The celebrity effect and trust endorsement have further transformed the suspicious consumption account in consumer mental accounts into a trusted consumption account, raising the mental price of goods. The limited edition and can adjust the amount of promotional discounts to unexpected gains in the mental account, resulting in an extra budget balance in the mental account and stimulating consumers' stronger purchasing intention in the future.

2.2.2. Loss Aversion

Loss aversion refers to the decision maker facing the same amount of benefits and losses at the same time, and suffering losses will make the individual more intolerable compared to the gains obtained. If a consumer believes that a certain product can bring them more benefits and utility, they will choose to purchase the product. The consumer's perception of benefits mainly depends on the perceived value of the product, not necessarily the actual value of the product [8].

Loss aversion can induce consumers to make consumption choices, allowing them to purchase goods according to the company's designed plan, and expanding sales for the company. At the same time, cosmetics companies can make reasonable use of loss aversion to attract consumers' attention and increase exposure. People have a negative attitude towards losses and no matter how much consumers like the certain product, they will have a loss mentality towards the payment amount in their hearts. Therefore, many cosmetics companies offset consumers' loss aversion by giving free trial kits, thereby promoting purchases. In addition, to ensure the rights and interests of online consumers, e-commerce platform merchants have rules such as seven day no reason to return or exchange goods and appreciation period, that is, consumers can return or exchange goods without reasons within 7 days from the date of arrival. When consumers choose to purchase goods, due to unconditional refund guarantees, they can return and refund within the specified period due to reasons such as dislike, which reduces the risk of purchase and stimulates more impulsive consumption among consumers.

2.2.3. Framing Effect

The framing effect refers to the fact that people's different descriptions of an objectively identical problem lead to different decision-making judgments. When a problem is expressed or designed in

one way, people tend to prefer option A, while the same problem is expressed in another way, people tend to prefer option B. The loss aversion from the decision-making system is a potential cause of the framing effect. When consumers perceive a certain price as a loss rather than a gain, they pay more attention to the price. The reason is that when measuring a transaction, people place a much greater emphasis on loss than gain. Therefore, many cosmetics companies link online product pricing or promotion with gains rather than losses to effectively stimulate consumer behavior [9].

Every e-commerce promotion festival, subsidies, red envelope rain and store discount coupons allow consumers to feel the strength of the promotion through price reductions, making consumers feel a strong sense of benefits. For example, in Taobao, \$5 off for every \$100 spending, or 30 yuan off for every 300-yuan spending, which are applicable across many selected stores. For consumers, consumption itself represents losses. If one needs to pay not only the actual price of the goods, but also the freight and insurance fees, they represent three types of losses. Consumers are often more sensitive to losses than profits, which hinders their consumption behavior. Therefore, cosmetics companies reduce consumers' concerns about losses by offering package shipping and free shipping insurance fees.

2.2.4. Anchoring Effect

Anchoring effect is a judgment bias phenomenon in which individuals are influenced by initial information when making decisions, resulting in subsequent estimates deviating from the initial anchor. The anchoring effect has been proven to be a common and difficult to eliminate decision-making bias in many fields. In daily life, people unconsciously attach too much importance to starting information. If an anchor appears, it will naturally become the standard for people to make judgments, regardless of whether this standard is reasonable or not.

In the process of consumption, consumers are easily guided by anchor points created by merchants, which prompts them to take purchasing behavior. By observing the pricing of online consumer products, it can be seen that many of their list prices end with 9, such as 299 yuan and 399 yuan, rather than 300 yuan or 400 yuan. The price positioning of 399 yuan makes it easy for consumers to categorize their products as things over 300 yuan, while the pricing of 400 yuan makes it easy to categorize the products as things over 400 yuan, thus causing different consumer feelings. For example, if a new series of lipsticks from Dior is introduced in the online platform, and the series is promoted together with other brands of a lower class. Even if the quality is superior, the high price it sets will not be accepted by consumers. On the contrary, if it is placed together with other famous cosmetics brands, such as Hermès, its high price is easily accepted, and thus can improve the economic benefits of cosmetics enterprises [10].

3. Pricing Strategies

For products such as cosmetics that are more popular among female consumers, the price greatly affects the sales of cosmetics. Therefore, when pricing cosmetics, it is necessary to fully consider consumers' consumption psychology and adopt more targeted pricing strategies.

3.1. Low-price Penetration

The low-price penetration strategy, also known as the small profit and high sales strategy. It refers to a company's early stage of product launch, which utilizes consumers' desire for low prices and intentionally sets prices very low, so that new products can attract customers with a high-quality and affordable image. Then it can also occupy the market quickly and seek long-term stable profits. Especially in cosmetics marketing, the consumers are relatively fixed and needs to rely on a relatively low

price to quickly attract consumers' attention. It occupies a relatively large market share, and gradually form a highly viscous consumer group in order to achieve greater economic benefits.

In the early stages of some products being launched, cosmetics companies help their products quickly increase popularity by setting lower prices. Some lipstick products often stimulate consumers' consumption psychology through sales policies such as discounts, helping to achieve greater sales and profits. For example, the Double Eleven Shopping Carnival refers to the online pro-motion day on November 11th each year. Merchants provide significant dis-counts through various means to stimulate consumer consumption. During the Double Eleven period, Tom Ford's lipstick was particularly cost-effective, with a price reduction of 100 yuan for the white case series and 70 yuan for the black case series. This strategy is conducive to attracting customers, enhancing the competitiveness of the product, and preventing competitors from entering hastily. It is conducive to quickly opening up product sales and expanding the market. However, the disadvantage is that the price is low and the profit is small, the investment recovery time is long, and there is a certain degree of risk under the conditions of inaccurate prediction of product lifecycle and demand elasticity.

3.2. Brand Effect

The brand effect in pricing mainly involves raising prices, creating a relatively high-end brand image and product positioning, mainly meeting the consumer needs of the high-end market. The brand and quality of products can have a significant impact on customers and become the main factors affecting prices. A good brand image will have a significant brand value-added effect on product prices.

Famous brand products use a high-quality and high-price strategy, which not only increases profits but also makes consumers feel satisfied psychologically. Consumers' judgment of product price and value is based on the criteria of value for money. Brand loyalty is formed when consumers feel that product pricing matches or is lower than actual value. Before the launch of cosmetics products, there will be product positioning, and some high-end products will enhance their brand value through limited edition releases and other means. In addition, for goods of different brands but with the same price, when the value of the brand is perceived to be higher than that of other brands, that is, consumers feel that the surplus value is larger, which is easy to form higher loyalty. Some makeup brands use anchoring effects to price, constructing reference points by aligning prices with the level set by top tier brands, making consumers believe that these brands belong to the same level, helping brands quickly increase awareness and attract consumers' attention. For example, the price difference between Dior and Channel lipstick products is not significant, but slightly higher than the price of the M.A.C brand, in or-der to enhance brand value.

3.3. Tiered Pricing

The tiered pricing method is a common pricing strategy that divides the price of a product or service into several different levels based on different sales volumes or profit levels. This pricing strategy can help companies achieve maximum profits in different market environments. The advantage of the tiered pricing method is that it can flexibly adjust product prices based on different sales levels. In the process of pricing cosmetics, it is necessary to con-sider consumers at all levels and adopt corresponding pricing strategies. Some products are targeted at middle to low income groups with lower pricing, and economic benefits are increased by increasing sales volume. For certain high-income groups, when sales are low, pricing standards can be raised to increase product profits and achieve maximum economic benefits.

The product should first align with the positioning of the end user, and the products in the cosmetics online marketing channel should be mass cosmetics. There are multiple series in the product, with different series compared to different consumer groups to maximize market share, improve brand

aware-ness, and achieve maximum economic benefits. For example, Estée Lauder's lipstick series mainly consists of the L'Amour series, followed by the Love series, Dazzling series, and so on. The price of the Estée Lauder L'Amour series will be higher, usually above 300 yuan. Then the lipstick of Xuanmu series is also a little more expensive, generally about 300 yuan. The lipstick of love series is relatively cost-effective, about 230 yuan.

4. Conclusion

The rapid development of the economy has brought about an improvement in consumption capacity, and people are paying more and more attention to their external image. The number of people using cosmetics is also gradually increasing, and the cosmetics market has huge growth space. Currently, the cosmetics market is highly competitive and the survival and development of cosmetics enterprises face enormous challenges. This article uses scientific research methods to analyze the basic situation of the current cosmetics online market and points out the current marketing environment. Then it uses the theory of behavioral economics to analyze consumers' consumption psychology, and puts forward practical applications. Finally, it puts forward suggestions on pricing strategies, including low-priced penetration, brand effect, and tiered pricing. Through the study of cosmetics pricing strategies, it hopes to provide valuable references for cosmetics companies and help improve brand image. Then it accurately locates target markets, expands market share and helps cosmetics companies develop healthily.

There are a few shortcomings in the review of this article. Firstly, the current situation of the cosmetics industry is not well understood, and the relevant theoretical level is also lacking. The understanding of relevant knowledge is not comprehensive and in-depth enough. The depth and breadth of this article's coverage still need to be strengthened, and the content elaborated is relatively simple. Secondly, due to the lack of sufficient collection of information and data, the mastery and understanding of the cosmetics marketing situation are not comprehensive and detailed enough, and the analysis is not deep enough.

After understanding the future development direction, it can be discovered that big data has deeply penetrated into all aspects of people's lives. By utilizing big data analysis technology, enterprises can obtain the most objective and timely effective data. By conducting effective analysis work, they can choose the most suitable pricing strategy. At present, most cosmetics companies have recognized the importance of big data technology in marketing, but there are no good methods at the specific operational level. In the future, by constructing a pricing strategy data system and corresponding standards, more effective pricing strategies can be formulated.

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