

Research on the Value Investment of Domestic Brands under the Emerging Chinese Cosmetic Market — Taking Perfect Diary as an Example

Ruonan Gong

Abstract—With the improvement of China's economic power and changes in consumer perceptions, China's cosmetics market has lots of space for growth. This paper uses qualitative research method that combine the primary research with the secondary research. Primary research is including expert interviews and consumer questionnaires, secondary research is including institutional reports and Perfect Diary annual reports. China's cosmetics market has a large space for growth, and the market concentration is not high. Domestic products such as Perfect Diary have excellent growth potential; sales channels shift online with the new sales models emerge offline. The marketing channels are mainly live broadcasts, and the private domain operation of Perfect Diary has become an industry benchmark. Perfect Diary has good revenue, but it is still at a loss due to its early investment. The future trend is that cosmetics products need to be specialized, cosmetic brands need to develop a multi-brand strategy and strengthen online trends. This paper aims to help investors understand the Chinese cosmetics market and find investment opportunities; also help domestic brands and foreign brands who want to enter to china market to adjust their strategy.

Index Terms—China cosmetic market, Perfect Diary, value investment, case study.

I. INTRODUCTION

With the improvement of China's economic strength, the improvement of consumer awareness of skin care and beauty, the continuous upgrading of consumer demand, the diversification and function of cosmetics are constantly being enriched, the Chinese cosmetics market has much room for growth, and with the Gen z people have become the main driving force of the market, and consumers' consumption concepts are gradually changing. More and more people choose to buy domestic cosmetics. At the same time, due to the rise of e-commerce, China's rapidly changing new media environment, and the increase in social platform marketing, the current Chinese cosmetics market has gradually formed new sales channels, marketing channels, and the company has also formed a new operating model. Its Chinese cosmetics are like perfect Diary first seized the opportunity. As a pioneer and pioneer, it gradually seized the market. Therefore, it is extremely important to understand the current Chinese cosmetics market and the models of companies that have initially succeeded.

Manuscript received October 9, 2021; revised March 28, 2022. This work was supported in part by the U.S. Department of Commerce under Grant BS123456.

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According to Kong [1], with the rapid development of the mobile Internet and the advent of a new consumer era, the Chinese cosmetics market has ushered in an unprecedented stage of explosion. Gen Z, who is keen to pay for the 'value of beauty', has become a powerful driving force in China's cosmetics industry. At the same time, under the "blowout" development of the mobile Internet, new marketing methods such as e-commerce live broadcasts and celebrity planting have emerged. The integration of multiple channels and the emergence of new cosmetics retail species have broken through the barriers of traditional industries, helped the rapid rise of a number of cutting-edge domestic beauty brands, and created a new pattern in the Chinese cosmetics market. Changes in consumption concepts include factors that men are interested in include appearance, social affluence, occupational success, and an association of cosmetic products with improved appearance and a measure of success [2]. It embodies the makeup consciousness that even men have begun to awaken.

Online sales channels have become an inevitable trend, and Online shopping has grown, especially among the young and rich people, a large proportion of them come from institutions of higher learning. A study on online purchasing behavior among undergraduate students indicates that the attitude, trends and actual purchasing behavior get influence by gender, educational background, and further by the perceived quality as described in the online products [3]. Besides, online shopping about cosmetics is evidently the future trend of shopping which has great potential which according to Selvakumar and Raghavan [4]. The Internet has developed into a modern global phenomenon, a forecast on usage habits in Spain and the USA indicates that the learners access their favorite websites and their reasons for purchase are get influenced by research, entertainment and the transformative appeal in education [5]. Fashion is a significant concern that drives users through online shopping for their pursuit of satisfaction. A closer forecast on university students in China further indicates that there is an inclination towards favorite products, websites and devices as the most important motivations that define their purchase trends [6]. Also, these students also put convenience as an important consideration in their purchase decisions. Finally, a study regarding attitude towards online purchase cosmetics in China also indicates that these parameters will continue to define stimulation and online purchase trends into the future [7].

According to Liu [8], With the significant increase in national self-confidence and the power of online channels such as e-commerce, emerging domestic brands have

gradually emerged. In the domestic cosmetics market, emerging domestic brands are breaking through the big-name barriers in multiple ways, and the domestic cosmetics market is moving to the next stage. Opportunities and challenges coexist. The reason for choosing Perfect Diary is that, according to Tian [9], as an outstanding representative of the new domestic beauty brand, it can quickly rise in the fiercely competitive domestic beauty market and successfully go public. It not only makes full use of the good external market environment but also has its own unique creative marketing. Ideas. Perfect Diary accurately grasps the market characteristics of the Internet economy era, makes full use of social platforms for product promotion and brand building, and cooperates with celebrity influencers to the greatest extent, and quickly carries out traffic marketing on the entire network to attract massive fans; secondly, Perfect Diary follows closely. The trend of the national side, a cross-industry joint name, successfully captures the consumer psychology of the younger generation through personalized and affordable creative products. And also according to Lin [10], Perfect Diary fully integrates its own brand audience positioning when formulating its brand promotion strategy and selects the appropriate promotion platform and mode by analyzing the consumption characteristics of the audience, thereby promoting the product to open the market.

Finally, according to Liu [11], in terms of future trends, cosmetics will be featured. While consumers pay attention to the brand, they also gradually turn their attention to product ingredients, pursuing more natural, safe and healthy products.

This paper first analyzes the current situation of the Chinese cosmetics market, then analyzes the current sales channels and marketing channels, and shows the practice of Perfect Diary, then analyzes the financial performance of Perfect Diary, and finally shows based on the existing information combined with consumer research, the future trend of China's cosmetics market.

II. DATA AND METHOD

A. Data

A total of 21 industry experts were interviewed for more than 30 hours which include the marketing manager, e-commerce summary, responsible person of brand public relations department, channel director, R&D engineer, factory director and sales manager of the domestic cosmetics leading company and the world's big brands. Meanwhile, there also included the opinions of professionals from investment institutions. At the same time, an online questionnaire survey of 1500 users, an in-depth interview of 50 cosmetics users and an investigation of 3 offline stores were completed and all the answers would be input into Excel then to the discussion and conclusion. Secondary research such as institutional reports and Perfect Diary annual report.

Perfect Diary was established in 2017 and is a brand of Guangzhou Yixian E-commerce Co., Ltd. It is the first emerging domestic cosmetics listed company (NYSE: YSG). Its products cover all categories. There are popular products on facial, eye and lips. It is currently the top player of

domestic brands in China, with a market share of 4% in 2019.

B. Method

This paper mainly uses expert interview method and questionnaire survey method. Expert interview method is through interview professional workers in different companies and positions in the industry to help interviewer to understand the industry from various angles. Questionnaire is a widely used method of social surveys, questionnaire refers to a form used for statistics and surveys to express questions about the way of asking questions. Questionnaire method is a method that researchers use this kind of controlled measurement to measure the problem of study, so as to collect reliable data [12].

According to Harris [13], 'questionnaires and interviews are seen as having differing and possibly complementary strengths and weaknesses. While questionnaires are usually viewed as a more objective research tool that can produce generalizable results because of large sample sizes, results can be threatened by many factors including: faulty questionnaire design; sampling and non-response errors; biased questionnaire design and wording; respondent unreliability, ignorance, misunderstanding, reticence, or bias'.

Therefore, this paper combine the expert interviews with the questionnaire.

III. RESULTS AND DISCUSSION

A. Current Status of China's Cosmetics Market

The scale of China's cosmetics market is growing rapidly. From 2015 to 2020. Fig. 1 provides a visualization of the compound annual growth rate of cosmetics is about 18%. The expected growth rate in the future will remain at double digits, which is higher than that of skincare products, daily chemicals and perfumes.

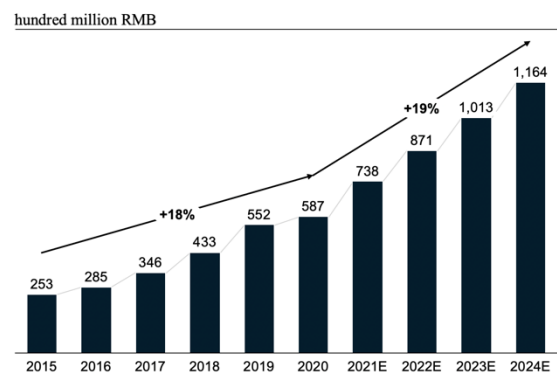


Fig. 1. The scale of China's cosmetics market in 2015-2024.

The main driving factor for the growth of the Chinese cosmetics market is, firstly, the increasing penetration rate of cosmetics. Before 2015, the penetration rate was less than 40%, and higher than 40% this year. There is still a big gap with reference to 80% of Japan and South Korea. Besides, consumption upgrades, the Z era and the population of the sinking market are rising, so there is still huge room for the penetration rate of China's cosmetics market. Secondly, the current consumption structure and consumption habits of domestic consumers are changing, and consumers are more

willing and able to buy cosmetics, so that the unit price and purchase frequency of cosmetics consumers have been increased. Finally, due to the promotion of e-commerce, not only the various marketing models of social platforms can easily trigger consumers' shopping impulses, but also e-commerce provides a more convenient way to purchase makeup. Therefore, the frequency of makeup purchases has increased from 2-3 times per year in 2015 to 4-5 times per year in 2019.

At present, lip products and monochromatic eyeshadows in the Chinese cosmetics market have become the most popular categories, with the fastest growth among all categories, because beginners of makeup can learn directly from lip makeup, and consumers are easy to feeling fresh from lipsticks and monochromatic eyeshadows. The sense of sensation and hoarding is the strongest, and it is more likely to be affected by emerging marketing models such as live streaming to form impulsive consumption, and the cost of trial and error is lower. Therefore, domestic brand products can easily break through lipstick and monochromatic eye shadow to seize the market. On the contrary, the growth rate of facial categories products is the same as that of the broader market. The reason is that consumers have a conservative attitude towards facial products. Consumers are more concerned about the safety of products. They will have a relatively high preference for big names and corresponding brand loyalty. It is difficult for domestic products to break through the facial cosmetics market.

B. Current Sales Channels and Marketing Channels

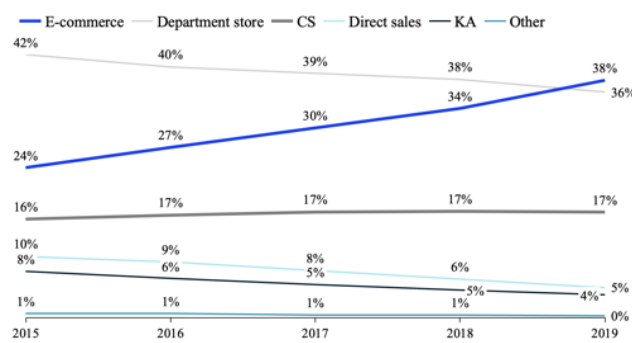


Fig. 2. Changes in China's cosmetic channels from 2015 to 2019.

The sales channels of cosmetics in China are divided into E-commerce, department stores, CS, direct sales and KA. Fig. 2 provides a visualization of the channel change. The cosmetics market has shifted significantly to online channels, and its dependence on offline channels is diminishing. Compared with international brands, domestic cosmetics brands entered online channels earlier and enjoyed the support of the Taobao platform to develop express delivery. International brands such as Armani, Chanel and Tom Ford have gradually increased their online channels by entering T-mall. Offline channels have squeezed as a whole. Department stores and traditional CS stores still maintain their shares, entering a stable stage, and KA will gradually fade out of offline channels.

It is worth mentioning that there is currently a new type of CS collection store in China, WOW COLOR and the COLORIST. Due to the assistance of capital, the expansion has accelerated in the short term. The emerging cosmetic collection stores will launch a large number of offline stores in the next two years. Precise positioning of consumer groups and capital assistance may be the entrance for the domestic brand to break through offline channels. However, emerging cosmetics collection stores still face problems such as irregular price management and poor shopping experience. They need to improve the training mechanism, improve the professional quality of BA, and strengthen the connection with online data such as online order and offline delivery.

Currently, Perfect Diary 90% of sales channels are online, 66% of which are from Taobao and Jingdong, Tiktok, the RED stores reached 15%, Private domain reached 10%, offline sales channels only accounted for 10%, and all of them are self-operated stores. At present, there are 200 Perfect Diary offline stores nationwide, and they plan to reach 600 in the next three years, and it will sink to 3-4 tier cities. The main reason for opening stores in first-tier cities is to establish the brand and increase popularity. With the gradual reduction of traditional traffic dividends, they still need to be diverted to Private domain and offline sales channels.

For marketing channels, at present, China's new media environment is changing rapidly. The hottest new marketing methods, such as live streaming, vibrato video, etc., have brought opportunities for Chinese brands to overtake in corners. Online and entire network marketing has become the current general strategy of makeup brands. That is, the mainstream channel flow planted plus the e-commerce platform harvested. Cooperate with KOLs of different levels

TABLE I: 2019 CHINA COSMETIC BRAND SHARE

Brand	Total		Face		Eye
	Market share	Brand	Market share	Brand	Market share
Maybelline	9.1%	Dior	8.6%	Perfect Diary	12.1%
Dior	6.6%	Maybelline	7.3%	Maybelline	8.1%
L'Oréal	6.4%	L'Oréal	6.4%	L'Oréal	7.4%
YSL	5.0%	YSL	3.7%	Dior	6.8%
MAC	4.0%	Age 20's	3.6%	Carslan	4.1%
Perfect Diary	4.0%	Carslan	3.6%	MAX	4.1%
Armani	3.6%	KANS	3.0%	Guerlain	4.0%
Lancome	3.5%	Estee Lauder	2.8%	Mamonde	3.7%
Carslan	3.4%	Mariedalgar	2.7%	Zeesea	3.6%
Chanel	2.8%	Mamonde	2.3%	MAC	3.3%
Others	51.6%	Others	56	Others	42.8%

Finally, Table I shows the current competition pattern in the Chinese cosmetics market. Domestic cosmetics mainly generate dislocation competition through price. The price of Perfect Diary products is less than 75 yuan. It is worth mentioning that the current concentration of the Chinese cosmetics market is not high, and CR10 is less than 50%. Perfect Diary occupies 4% and currently ranks sixth in the total category. Consumers have high requirements for the safety of facial products, and facial cosmetics still trust international brands. The concentration of eye products is relatively high. Some brands can quickly gain market share by focusing on one or two popular products. For example, 'the Perfect Diary animal eye shadow palette' has become a hot product, occupying 12.1% of the eye market share. Combined with the mature domestic flexible supply chain, it can meet the early small-batch, multi-batch, and customized needs of domestic brands and provide a solid foundation for the big-name "level replacement" of emerging brands. Therefore, Chinese brands have a great deal of presence in the Chinese cosmetics market growing space.

that 1-2 head experts, plus a dozen waist experts, plus a few hundred medium and long-tail experts, plus thousands of amateur people to plant grass and rotate. Accumulate word of mouth, use mainstream channels such as Tiktok, the RED, Weibo, etc., to harvest flow, and divert it to major e-commerce platforms, mainly T-mall. At the same time, use IP to create co-branded models to increase brand reputation and promote the sales of explosive models.

Perfect Diary's marketing investment was about 700-800 million RMB in 2019. Perfect Diary creates a two-wheel-drive model of 'public domain traffic' plus 'private domain traffic', builds closed-loop marketing for users, forms its ecology, and builds barriers. Public domain traffic is mainly through social media, using circle strategies and three-dimensional KOLs Marketing, private domain traffic is to increase the life cycle value of users through the operation of WeChat groups. What is worth mentioning is the private domain operation of Perfect Diary, which can obtain flow and promote the brand at a lower cost. Perfect Diary private domain sales and operations have become the industry benchmark. Perfect Diary has specially established a private domain middle-station team with about 50 technology. The operation team is responsible for connecting with Ali big data, capturing data for analysis, plus 450 customer service personnel with strong operational experience in charge of fan group operation, and establishing virtual IPs of 'Xiaowanzi' and 'Xiaomeizi'. Perfect Diary's current customer service yields per unit up to one million yuan/year mainly attract users by giving more private domain discounts. The current data is that there is 16 million fan traffic in public domains and 4 million in private domains, of which 1.6 million active users, so there is still substantial space for development. At present, there are more than 30,000 groups on WeChat, with 13,000 active groups, and each group has 200-300 users.

C. Financial Performance

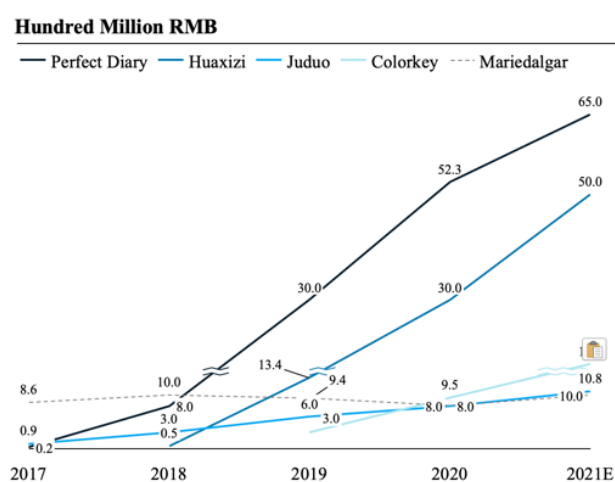


Fig. 3. Changes in Perfect Dairy profit from 2017 to 2021.

Perfect Diary is the first listed company among the emerging domestic products. Fig. 3 provides a visualization of the Perfect Dairy profit from 2017 to 2021, its GMV reached 1 billion in 2018 and reached 30 in 2019, and the original target growth rate for 2020 will be 100%. According to Perfect Diary's parent company Yixian E-Commerce, it disclosed its 2020 annual performance paper. As offline businesses are greatly affected by the epidemic, revenue in

2020 will reach 5.23 billion yuan, an increase of 72.6% from 3.03 billion yuan in the same period of the previous year; gross profit will be 3.36 billion yuan, an increase of 74.5% year-on-year; the scale of DTC consumers will reach approximately 3,230 Million, a year-on-year increase of 38.0%.

At the same time, according to the 2021 financial paper, the company's Q1 revenue was 1.44 billion yuan, a year-on-year increase of 42.7%. Compared with the 36% revenue growth rate previously predicted by the agency, the overall performance exceeded expectations. However, the brand is currently in the early stage of investment. In Q1 of 2021, the sales and marketing expenses of Yixian e-commerce are 1.04 billion yuan, accounting for 72.1% of net income. Fortunately, with the Group's efforts to build, new brands also show a blooming trend. Benefiting from the continuous advancement of the multi-brand strategic layout, the Group's DTC consumer scale exceeded 9.6 million, an increase of 11.6% year on year, and the quarterly customer price of DTC consumers was about 122.9 yuan/person, a rise of 24.5% year-on-year.

D. China Cosmetic Future Trend

Regarding the future development trend of the Chinese cosmetics market, first of all, the characteristics of cosmetics gradually appear, such as the development of cosmetics that can care for the skin, such as Medicated Care-Hybrid Foundation to provide medicinal skincare effects; or full-color cosmetics, which do not contain animal ingredients and are in the process of experimentation. Zero harm to animals; or multi-functional fusion makeup, product effects have a trend of fusion, such as the addition of sunscreen effect to isolation cream and makeup primer. At present, Lancome has launched isolation sunscreen BB cream, and after the epidemic is over, eye shadow, highlight, and other facial Makeup products will also overgrow. In the future, lip products will be more subdivided in texture, packaging will be more prominent in social attributes, and eye products will pay more attention to texture selection and color combinations.

Secondly, major cosmetic brands are gradually developing multi-brand strategies to meet market demand for different price ranges. Perfect Diary relies on frantic acquisitions to lay out the entire product line. Before Perfect Diary also acquired Little Ondine, Avène's high-end skincare brand Galénic and other well-known brands, incubate its brand Abby's Choice. In the first quarter of 2021, it acquired the British high-end skincare brand Eve Lom, a new makeup brand that focuses on the 'girlish style' Pink Bear brand.

Finally, international cosmetics will strengthen online channels in terms of sales channels, and domestic cosmetics will accelerate their offline layout. In terms of marketing channels, major brands will continue to co-brand with different well-known brands to create public opinion and use live broadcasts and social media to drive sales. Continue to jointly name famous IPs to trigger extensive discussions on social media, cross-border cooperation to cause marketing hotspots, and strengthen consumer brand awareness, such as the joint eye shadow palette of Perfect Diary and National Geographic magazine. High-frequency use of live broadcasts and social media to drive brand sales and brands live through

KOLs, Or private domain traffic will bring goods to the brand; BA will become an Internet celebrity, and offline stores will use online shopping guides to carry goods through live broadcasts to improve performance.

IV. CONCLUSION

The purpose of this research is the status of China's cosmetics market, including market size, growth rate, and the current status of sales channels and marketing channels, and to show how Perfect Diary does it. After that, it analyzes the annual paper of Perfect Diary and future trends in the cosmetics market.

China's cosmetics market has a large space, stable growth, changes in consumer perceptions, consumption upgrades, there is still much space for improvement in penetration rate, and the market concentration is not high; domestic products such as Perfect Diary are expected to increase market share gradually. Makeup brands have steadily made their sales channels online, and a new sales model has emerged as a new collection store. The marketing channel is mainly through the live broadcast of Tiktok, the RED. The private domain operation of Perfect Diary has gradually matured, and it can build a complete ecosystem lock up. The revenue of Perfect Diary exceeded expectations, and the growth rate was apparent. However, because the company is still in the early stage of investment to quickly occupy the market, the expenditure is enormous and still at a loss. The future trend will require specialization of cosmetic products, and the brand has gradually developed a multi-brand strategy and multi-category. At the same time, major brands will use social media more frequently to disseminate brand information and increase product linkage with other IPs.

All in all, at present, domestic brands have just risen and are not yet fully mature. Therefore, recommended continuing to observe. However, relying on the excellent environment of the Chinese cosmetics market, the strong purchasing power of consumers, and the changes in consumer behavior, continue to be optimistic about the domestic cosmetics section. Institutional investors can Find the right time to invest.

CONFLICT OF INTEREST

The author declares no conflict of interest.

AUTHOR CONTRIBUTIONS

Ruonan Gong wrote the paper and had approved the final version.

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