

An Investigation into Cosmetic Market Strategy of China: A Case Study of Sephora

Yifei Gao*

Hult International Business School 1 Education St, Cambridge, MA 02141, UK

Abstract. This paper investigates the Sephora's consumer behaviors in Chinese market. With the larger segmentation of the market and changing consumer views of cosmetic products, there are factors of change in Consumer behavior. Sephora is a classic and successful representative in cosmetic industry for a long time, most of their marketing strategies are original and leading trend among most continents. However there has been a downturn in performance over the years. In order to determine the reasons for changes of the situation in recent years, this paper used case study method to analysing different perspectives of Sephora current marketing strategy. The review theoretical framework is based on 4Ps founded by Neil Borden, which applied with detailed explanations in four perspectives to reveal why Chinese market of Sephora are not performing well in last few years compare with the other marketing areas. In addition, three recommendations to correspondence issues divided in different aspects as increase local brands, improving brand awareness, integration into the local marketing market, adjusting price marketing model and business strategy.

1 Introduction

China has been key cosmetic market area among the world for a long time. In last decade, Chinese cosmetic industry developed rapidly. Major international brands continue to perform steadily, along with various local brands keep capturing a larger share of the market each year. Many new competitors are also trying to entering the industry. Some of the brands are successful and have gone public, while others have been quickly eliminated by the market. According to the Mordo intelligence Chinese cosmetics market size is estimated to be USD 9.88 billion in 2024, and is expected to reach USD 15.72 billion by 2029.

More and more Chinese consumers are paying more attention on their external beauty, especially including male gender. New lifestyle and goals are changing based on the increasingly of the economy. Beauty and health are taken more seriously, for example, more male customers starting to search and purchase the skincare products and makeup products. Therefore, more cosmetics are launching more sophisticated men's care lines. And with the raise of disposal income of professional woman also stimulates the cosmetic market. Customer changes their past shopping habits when they choosing skincare and makeups. Variables that dominate consumer choice are growing, including: brands, prices, ingredients. Especially in latest few years, the sales record and brand market share percentage are keep updating. In another word, customer shopping tendency is not steady as before. The aforementioned scenario has also resulted in a highly competitive market. In order to develop more effective marketing strategies, brands must continue to pay close attention to consumer preferences.

* Corresponding author: 100242@yzpc.edu.cn

Academic circle is paying more attention to consumer behaviors of Chinese cosmetic industry. In the existing literature, there is increasing study research on Chinese cosmetic market. However, it is still remaining some gaps on studying the change or combination of the traditional marketing strategy with new emerging marketing techniques.

With the fast-paced growth of marketing expansion, the domestic brands are entering the market. Related laws and regulations have also been revised and improved to better protect for both merchants and consumers. International First-Line Brands is still taken a major part of the Chinese cosmetic market. As for the top popular brand, Sephora have got a good market performance at beginning when they entry the Chinese market with their specialness [1]. Their specialty service and marketing strategy were used as textbook example among many brands training. This paper profiling from different consumer behaviors angles to average brand advantages and weakness.

Case study method is applied in this paper, which is a research method of often be used in investigating of a particular individual, unit, phenomenon, or theme. It is suitable for Sephora's case analysis for reader detailly understand the enterprise's background, goal, decision-making process and results. Through the method is able to present clear and detailed one-to-one advice for the issues. Meantime, there are also limitation existed such as limited sample size and generalization of the findings. In order to be more precise and detailed illustrate the issue that Sephora have and better figure out appropriate strategy, 4P theory will be used for framework.

2 Background

Sephora is a store which sells various cosmetic brands established in 1969, it joins LVMH group in 1997 to this day [1]. The idea at the beginning is aim to provide a relaxed atmosphere for customers to pick their favoured cosmetic products. Along with time, it become a well-known brand in many countries, fast expansion and unique business model are continuously appeal academicians to explore. However, that has changed in recent years along with the speeding economic situation of marketing environments.

3 Current crisis

Sephora has strong market and large target segmentation in Europe, North America and Middle East market for long time, nevertheless other market does not adapt as well in the past few years. Sephora has announced that business in Korean will stop services in phases start from May 6, including online and offline stores, business in Russia exited in 2022, stores in Taiwan closed in 2023. There are still more than 300 sales stores in China. As matter of fact, the performance of China market area has showed falling tendency, net profit for the same period of 2020-2023 appears negative numbers. Still Chinese market is an important part of Sephora's business plan due to the large population group of young females and overall purchase power [2]. The following part will use 4P's method to access current market status in China.

3.1 Product of Sephora

Sephora's product positioning focuses on comprehensiveness as well as specialization. The first motion of marketing is to create and manage the products in business. Products will determine the future target customers, market positioning, opponent differentiation which are also the connection between brand and customer. Since the Sephora enter the Chinese market at 2005, the product structure is keep updating to achieve sustainable development in the long-term. Sephora contains various of product with different brands to increase its market competitiveness. Merchandise not only contains the brands that have worked with Sephora for many years, but also built partnerships with few local cosmetics brands. Some of the products are exclusive offer in Sephora platform, some are not.

The exist the Japan market setback in 2001 make Sephora noticed it is important to have a self-own brand which is vital for brand equity. Therefore, Sephora start building their own line called “Sephora collection” line, and set product positioning at the lowest price range among other collaborated brands. Meanwhile store provides completed product lines including cosmetic, skincare, perfume, Body care, nail, hair and eyelash to fulfill all types of customers’ needs. It is conformed to the original intention of the founder, Sephora can suit a wide variety of customer needs to build a health, enthusiasm community for cosmetics lovers [1].

Sephora tend to use diversification strategy to better accommodate indigenization, store added few Chinese brands in local markets. However, it did not increase the revue as expected in last five years. And after comparison of the official websites in different countries, the products in China are way lesser.

3.2 Price of Sephora

The price setting range of Sephora products is wild to accommodating different consuming groups. They include both luxury brands and relatively inexpensive price brands contain Sephora self-owned invention brand.

Furthermore, Sephora membership system is a signature part of their pricing strategy which are a loyalty programs mechanism. It can collect consumers’ shopping preference, transaction records and interests [3]. Through “purchase gain credits” to maintain the long-term relationships with the customers. Credits can be used for different ways, like: exchange products, participate membership activities and gain a personal customized service etc. In this purchase reward process, binding the brand with customers closely.

Also, there are sales period each year for store members only. Each sales promotion will last two to three days, and the three levels of the membership gets different percentage of sales, respectively are 75%, 80% and 85% off.

In China market, currently has four types of membership: pink, white, black and gold. In order to enjoy the top-level member services, customers need to become gold card membership. And there are several requirements to fulfilled, first of all is to be a member of Sephora at least for a yearlong and then gain purchase credits for 12,000 points. To maintain the next year gold card membership needs to purchase 7,500 RMB in following 12 months.

This strategy is to keep client loyalty, increase the repurchase rate and it works successful at the beginning. However, Chinese cosmetic environments have been changing in last ten years. Lots of local brand rises and got fond of young generations.

3.3 Place of Sephora

Place means the process that how customers get their purchases goods from the merchant. Sephora built both online and offline sales distribution model for consumers convenience. Distribution channel contains physical stores, website, app and Mini program can be searched on WeChat and TikTok.

There are over three hundreds stores in China by now with the classic white and black design Sephora always have. Start by in the first-tier cities and expand to other cities, more than half site selection are in commercial real estate especially in high-end shopping mall. Although there are also physically stores are placed at ordinary commercial real estate, still are surrounded by shopping centres or merchandise streets. All the stores site selection considered clients traffic convenience and passenger flow volume.

Online website and app are continually offered in the Chinese area, along with Mini-program on WeChat and official account on TikTok. Consumers can search Sephora in both two apps to achieve purchase. Furthermore, they can join the fans group chat to get information’s like: products recommendations, promotions and draw lotteries activities. Overall Sephora's channel strategy has the advantage of having many stores, which should be complemented with this advantage and combined with the online shopping habits of Chinese consumers to maximize its advantages.

3.4 Promotion of Sephora

Promotion is the last but not the least part of brand marketing, it can combine with public relations, social media publicity, advertisement etc. Any means combination above can be formed to create a brand own promotion strategy. The following part will elaborate on Sephora's promotions activities from both offline and online perspectives.

Begin with offline promotions, Sephora is the first merchant that start providing beauty consultants in the stores which elicited great response from customers. Currently there are more than thousands of professional consultants work in stores to provide makeup trial, skin detection and spas services in physical stores. To achieve continuous sale growth, Sephora keep adapting changing they also share makeup tutorial through Chinese popular social platforms. Their Specialty is an advantage for Sephora to compete with other cosmetics retailers.

Sephora has keep updating their strategy in the past. In 2023, Sephora held own first beauty festival for three days in Shanghai. More than three thousand of customers redeem their Sephora credits to get on-site participation.

Secondly, for online promotion Sephora has been trend leader for a long time. The first retailer advertise through WeChat was Sephora in 2015. And during Christmas in 2017, Sephora conduct the first personal live-streaming makeup contest. First anyone can upload makeup tutorial on Mei Pai (a Chinese camera app) to participate mass-election which accumulate to 70 million views. After final screen out, contestants can go to their assigned offline store to have the final stream-living makeup contest. And artificial intelligence is also early used by Sephora for scan facial gesture to try makeup virtually and interacts with the clients [4]. Alipay was collaborated with Sephora in 2018 Chinese New Year Festival, app user can their phone scan the store poster to get a virtual French bull dog holding a red envelop running to their user which can be redeem with Alipay.

From above promotion activities, it is fair to evaluate Sephora has willingness and determination in participating medium channel. And since core idea of Sephora to build a makeup lover community, improving the channel system and experience its advantages and a long-term task. However, with the fierce competition of online marketing promotions, cosmetic industry consumer's behavior tends to be omnichannel. Driven by social marketing, consumers are more focus on the authentic assessment on products, so it is crucial for beauty retailer to keeping update their customer needs to win more loyal clients. Sephora still needs to improve their omnichannel promotion strategy in Chinese Market.

4 Suggestions

4.1 Increase volume of Local cosmetic brand

Chinese Cosmetic industry has been developed rapidly in last decade. Sephora has built exclusive collaboration with Chinese local brands Like Maoeping Light, Inohertbang, Marie Dalgar Color Studio to accommodate the market. However, it did not accomplish the expected affection. The competitors has higher growth rate like Wow Colour, Harmay (local beauty Boutique Store). Current strategy is to work and cultivate several high price brands, but it cannot satisfy the target Customers. There are many new local brands succeed rapidly by adding the traditional Chinese culture when building their brand culture [5].

4.2 Adjust price marketing model

Sephora needs reconsider their pricing model besides memberships system. First of all is dynamic monitoring the competitors' platform price change and response logically. Customers tends to compare different platforms to get lowest price before they purchase. Sephora can keep the price on exclusive products since there is no other distribution, but be aware not set the price higher than oversea platforms. Part of consumers will check oversea website plus shipping cost to calculate the fairest prices for them to make purchase decision.

China has different discount seasons preference like double eleven or 618 rather than black Friday in the United States. Most Cosmetics Lovers will stockpile their favourable regular necessities during discount season. The strategic adjustments that Sephora must now make include redoing market research and modelling better pricing.

4.3 Combination of marketing strategies

Omnichannel retailing is the following tendency for the future, it means to provide customers a seamless atmosphere combines both online and offline distribution channels whether the final purchase action is made [6]. For making a comprehensive marketing strategy, its crucial to combine different factors in consideration. The main target group is Chinese female, especially young female are increasing their budget on purchasing makeup and skincare. Meanwhile, with the skin care awareness affection through social media, men's cosmetics market has substantial increase. As for the Chinese market, Sephora can take the following aspects into account in strategy process making.

4.4 Social media

Using social media advertising strategies and marketing collaboration with influencers and celebrities is helpful to get more customers. This is also a typical marketing strategy that commonly used to advertise a new brand, as public figure they already have a based number of fans to influence their consumer behaviours [7]. Cosmetics buys has the habit of referring to other people's experience, especially when the subject is one he/she admires and loves.

Internet Influencers on social media are one of the reasons that local brand rises so rapidly in China. In oversea market, Sephora used to be the icon sharing topic among most of beauty blogger, they share "annual favourite of Sephora", "must have in Sephora during discount period" videos regularly. It was and still a useful promotional means causes cosmetic lovers take their trust blogger' evaluation into serious account.

4.5 Improve brand awareness

Brand Awareness is a key factor for customers to make purchase decision. It also determines the creditworthiness level of customer trust in the brand's products [8].

For Sephora's case, it is already a well-known brand, therefore recover the brand awareness back to the peak in past can accelerate the process to get more market share. Instead of holding grant events, try more pop-up activities with KOL and celebrities during the holiday's season. Creating the idea to various target groups that the brand is keep innovating and care customers' needs. Moreover, pop-up marketing strategy gets positive response from the market, it combines the traditional retail and e-commerce to strengthen consumer brand awareness [9].

4.6 Integration into the local marketing market

Firstly, it will be helpful to encouraging more brands participate on discount season to attract bigger target groups. With low amount of brands proportion of joining the sales activities results in clients use other online beauty platforms. Sephora can also consider building strategic partnership with major e-commerce platform in China to win more market share.

Large numbers of physical stores are a significant advantage of Sephora. Various of Product display, professional makeup service is intuitive sense to affect customers. However, there has been many negative reviews in recent years that reduce the passenger flow volume. Shopping in physical stores is still most people's choice when they want to try the product in personal. In this scenario, sales staff are a key factor to influence customers' purchase decision since they will directly contact with the buyers [10]. Hence staff training and store management are definitely necessary in the next reform.

5 Conclusion

This case study will help to gain a deeper understanding of the cosmetics market in China and the positioning, issues and recommendations of the brands represented by Sephora. Analysed with the help of the 4P theoretical model, the brand now has room for improvement in every aspect of its business in China. As the economic environment undergoes transformation, consumer behaviour also undergoes change. Those seeking to succeed in the Chinese cosmetics industry must recognize that maintaining the status quo is no longer a viable strategy.

It is imperative for businesses to gain a deeper understanding of the psychology of consumers and analyse their consumption behaviour. The true adaptation to the market is not merely the blind adoption of other brand sales strategies; rather, it is the understanding of the current brand positioning in the market and the subsequent customization of the most suitable marketing strategy for their own brand. For the case study of Sephora shows that the multinational brands still have brand awareness affection among the Chinese customers. The decline in performance observed in recent years is linked to the brand's neglect to adapting the rapid development of China's marketing promotions, pricing adjustments and distribution's updating. It is of the utmost importance to rebuild consumer love and loyalty to the brand in the current climate. Now the focus is to reformulate and adjust the marketing strategy according to the consumer's behaviour to expand the brand's influence, broaden the selling channels, attract more consumers will make the brand progress.

This analysis of Sephora's individual brands has certain limitations, which cannot fully represent the issues faced by all brands in current Chinese cosmetic industry. In the future, it would be possible to increase the number of brands and sales data in order to conduct a more detailed comparative study of consumer behavior in China's makeup industry.

References

1. Our Heritage, Our Heritage – Sephora, 2024, 6, 13, inside-sephora.com
2. B. Li, Research on marketing strategy of Chinese domestic cosmetics based on female college students' consumption characteristics. In 2021 6th International Conference on Social Sciences and Economic Development (ICSSSED 2021), 421-425(2021), Atlantis Press.
3. Wood, R. Business Intelligence and Analytics. *Introd. Inform. Syst. Manag.* (2024)
4. D. Dang, Artificial intelligence: AI in fashion and beauty e-commerce: Zara, Sephora. (2022)
5. L. Yang, W. Meng, Y. Li, Marketing strategies of Chinese cosmetic brands in local market. In 2021 3rd International Conference on Economic Management and Cultural Industry (ICEMCI 2021), 3130-3138 (2021). Atlantis Press.
6. M. Hänninen, S.K. Kwan, L. Mitronen, From the store to omnichannel retail: looking back over three decades of research. *Intern. Rev. Ret. Distr. Cons. Res.* **31**(1), 1-35 (2021)
7. S.H. Hassan, S.Z. Teo, T. Ramayah, N.H. Al-Kumaim, The credibility of social media beauty gurus in young millennials' cosmetic product choice. *Plos One* **16**(3), e0249286 (2021)
8. M.F. Shamsudin, Hassan, M.F. Ishak, Z. Ahmad, Study of purchase intention towards skin care products based on brand awareness and brand association. (2020)
9. L. Liang, Y.H. Pan, Research on user experience under the new retailing mode: using the interactive marketing mode of the Estee Lauder POP-UP store as an example. *J. Digit. Converg.* **19**(6), 343-353 (2021)
10. H.T. Yi, Y.B. Cha, F.E. Amenuvor, Effects of sales-related capabilities of personal selling organizations on individual sales capability, sales behaviors and sales performance in cosmetics personal selling channels. *Sustain.* **13**(7), 3937 (2021)