



Whitepaper on the Chinese Makeup Market

Chapter 1: Overview of the Chinese Makeup Market

Deloitte China



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Key Viewpoints



Key Viewpoints



The sudden outbreak of COVID-19 shook up the consumer products and retail sector. In particular, the makeup industry experienced a drastic sales decline as a result of home quarantine measures and consumers' dependence on offline retail channels. As the pandemic began to subside in China, the offline consumer market witnessed an accelerated business recovery and improved consumer confidence, which, along with the maturing of online retail channels, allowed the market to pick up quickly. With emerging online business models that utilize social media and livestreaming to drive sales, and the post-pandemic forays of niche overseas brands, the makeup market in China is showing clear trends of digitalization and diverse development.

Driven by increasingly sophisticated consumers, the rise of local brands, new media marketing and the capital market, the Chinese makeup sector will evolve towards cost-effective, frequent and immersive purchase scenarios, where makeup becomes part of consumers' lifestyles.

- **Although hit by the pandemic, the Chinese makeup market shows high medium- to long-term potential.** As the pandemic gradually subsided, a strong rebound in consumer demand for makeup products began, not just as a result of “retaliatory consumption”, but also driven by increasingly sophisticated consumers, the rise of local brands, new media marketing and the capital market, among other factors.
- **Compared with mature European and American markets, the makeup sector in China, especially in tier 2-3 cities and lower-tier cities, has huge room for further growth.** Although consumers in tier 1 cities are becoming more sophisticated, those in tier 2-3 or lower-tier cities are still beginners. As makeup consumption extends from lipstick to multiple other products, the market will swiftly become more diversified and develop at a faster pace.
- **Powered by consumers, supply chain and e-commerce/social media marketing platforms, emerging local brands stand out.** Leading Chinese brands have grown exponentially in recent years, with dominant shares in the rapidly consolidating local brand segment.
- **Women under 30, including a high proportion from lower-tier cities, are the dominant consumers for emerging Chinese brands.** They are mostly students and young professionals at the beginning of their careers, open to new ideas, with low incomes.
- **Overseas niche brands that emphasize textures or functions are growing fast, with accelerated entry into the market.** Frequent mention of overseas niche brands on social media and online platforms has drawn consumers’ attention.
- **Women under 30 are also the dominant consumers of overseas niche brands, with different consumer profiles in each price range.** Expensive brands mostly attract younger, tier 1 city consumers. Cheaper brands cater to older consumers from lower-tier cities. Overall, consumers of overseas niche brands are quite young, active and outgoing, with a low average income and a wide range of interests, and able to think independently when deciding which brand to buy.
- **A new generation of multi-brand retailers that sell makeup and lifestyle products is rising as they refine their single-store model.** Multi-brand retailers are quickly gaining traction with good value for money, rapid product upgrading and immersive shopping scenarios, but their long-term success will take time to reveal.

Seven Trends in the Makeup Market



Trend No.1: Although it was hit by the pandemic, the Chinese makeup market shows strong medium- to long-term potential

As the pandemic gradually subsided, a strong rebound in consumer demand began. According to our big data tracking, sales of makeup products on Tmall reached RMB5.4 billion in March and RMB4.1 billion in April 2020, nearly doubling their year-on-year growth

The sudden outbreak of COVID-19 pandemic at the beginning of 2020 dealt an unprecedentedly heavy blow to all sectors. Consumer products and retail struggled, and consumers' interest in purchasing makeup products plummeted as they spent more time at home and wore makeup less often. Makeup sales on Tmall in January and February 2020 suffered drops of 28% and 18%, respectively, compared with the previous months. Lip products including lipstick and lip gloss and base make-up products such as liquid foundation and primer were hardest hit.

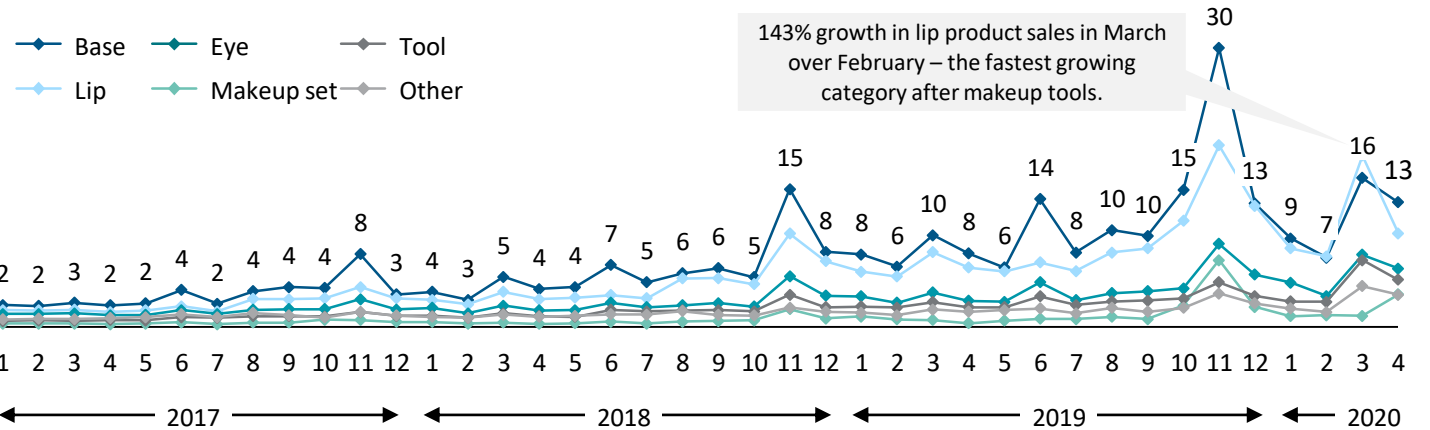
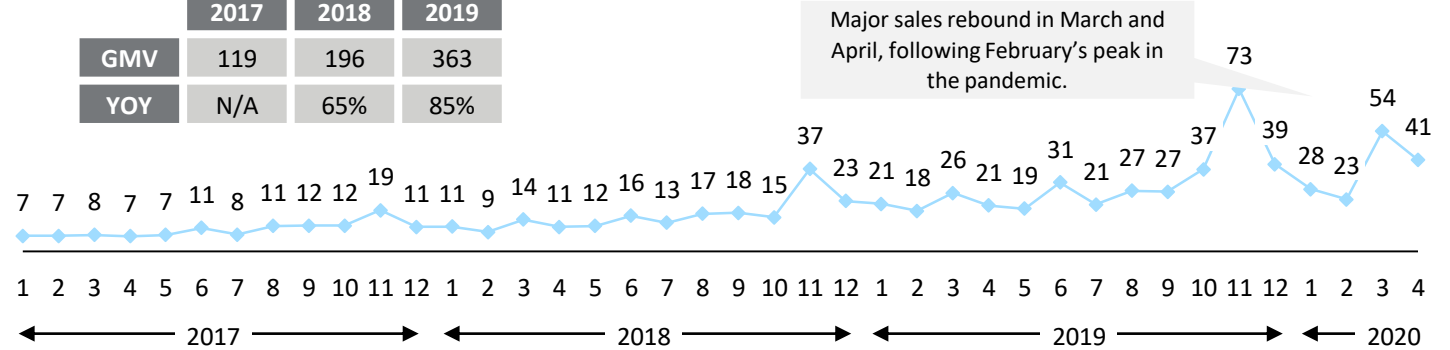
However, as the pandemic subsided, consumer demand rebounded. Sales of makeup products on Tmall reached RMB 5.4 billion in March and RMB4.1 billion in April 2020, nearly doubling year-on-year. In particular, as a basic makeup product with a low unit price, and because women were freed from the impact of mask wearing, sales of lip products picked up fastest in March, matching a common sentiment among Chinese consumers that shopping for lipsticks is gratifying.

Recent growth was powered not just by short-term "retaliatory consumption", but also by **consumers' increasing sophistication, the rise of local brands, new media marketing and the capital market, among other factors**. The previous year was marked by many major events: the financing of local brands, entry of overseas brands and offline channel innovation, which pushed the market forward.

Tmall makeup GMV (2017.01-2020.04)

Unit: RMB 100 million

	2017	2018	2019
GMV	119	196	363
YOY	N/A	65%	85%



Source: Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.2: Huge room for growth in Chinese market, especially in tier 2-3 and lower-tier cities, compared with the mature European and American markets

Consumers in tier 1 cities are becoming more sophisticated, but those in tier 2-3 or lower-tier cities are still beginners. As makeup consumption extends from lipstick to a variety of other products, the market will become more diversified and develop at a faster pace

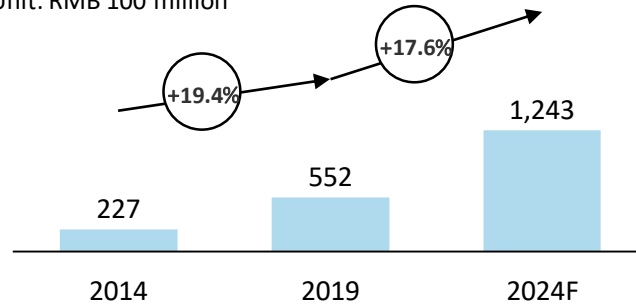
As a top performer in recent years, driven by the growth in young consumers from lower-tier cities and the emergence of new channels, the long-term prosperity of the makeup market will not be disrupted by a black swan event like COVID-19, with a predicted five-year CAGR of 17.6%. Per capita makeup consumption shows China still has huge room for growth, especially in tier 2-3 and lower-tier cities, compared with mature European and American markets.

The underlying reasons are China's changing consumption structure and consumer habits. On one hand, as the Chinese economy enters a new normal, slowing consumer income growth and increasing debt due to the pressure of housing, education and healthcare costs will harm purchasing power for dispensable big-ticket items. On the other hand, influenced by material consumption during a period of rapid economic growth, Chinese consumers have entered a stage of buying quality, personalized items. As a cheap, gratifying purchase that suits their pursuit of quality and personality, makeup is becoming highly sought after among young middle class consumers and consumers in lower-tier cities. The structure of makeup consumption also reveals upgrades from basic products, like base and lip makeup, to eye makeup and makeup sets, reflecting a desire to wear complete makeup.

The overall penetration of makeup products is expected to rise quickly, with more young consumers from lower-tier cities and increasingly diverse product categories.

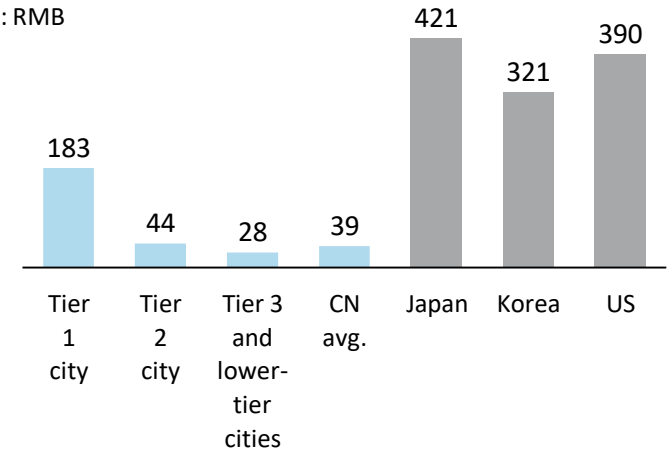
Chinese makeup market size (2014-2024)

Unit: RMB 100 million

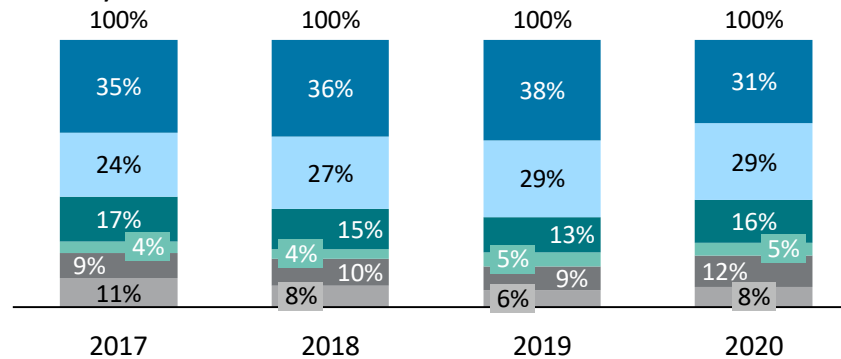


Per capita makeup consumption by country (2019)

Unit: RMB



Online makeup consumption structure in China (2017-2020)



Category YOY

Category	17-18	18-19	19-20
Base	72%	92%	45%
Lip	86%	96%	67%
Eye	47%	64%	92%
Makeup set	44%	152%	135%
Tool	74%	67%	96%
Other	21%	45%	84%

Source: Euromonitor, Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.3: Powered by consumers, supply chain and e-commerce/social media marketing platforms, emerging local brands stand out

Leading Chinese brands have grown exponentially in recent years, with dominant shares in the rapidly consolidating local brands segment

As early adopters of online channels, local makeup brands have always been major players online. It is only in recent years that international brands including Armani, Chanel and Tom Ford have joined Tmall and begun their competition for online market share. Yet, since 2019, emerging local brands represented by Perfect Diary, MAOGEPING and Florasis have delivered excellent performance, driving sales of local makeup products.

Known for their good value for money, fun products and fast product upgrading, emerging local brands have become new favorites among young consumers born after the 1990s and 2000s who are forming their makeup wearing habits. At the variety of product categories expands, consumers are expected to spend more per capita on makeup and buy it more often. As consumers in lower-tier cities become more aware of makeup products, an expanding consumer base and increasing penetration of lower-tier cities are expected to benefit local brands, which offer cheap, entry-level products. A mature makeup R&D process and supply ecosystem is gradually taking shape in China, lowering barriers to entry. For example, the entire process from R&D to production of a new lip gloss has shortened from months to 2-3 days.

The rise of new social media platforms and a content ecosystem, including WeChat public accounts, Xiaohongshu, Bilibili and live streaming, makes it easier for products to reach consumers. Meanwhile, Tmall, as a new brand showcase, has launched a makeup brand incubation program, supporting brands' online store setup, R&D, marketing and big data analytics.

Local makeup brand GMV on Tmall (2017.01-2020.04)

Unit: RMB 100 million

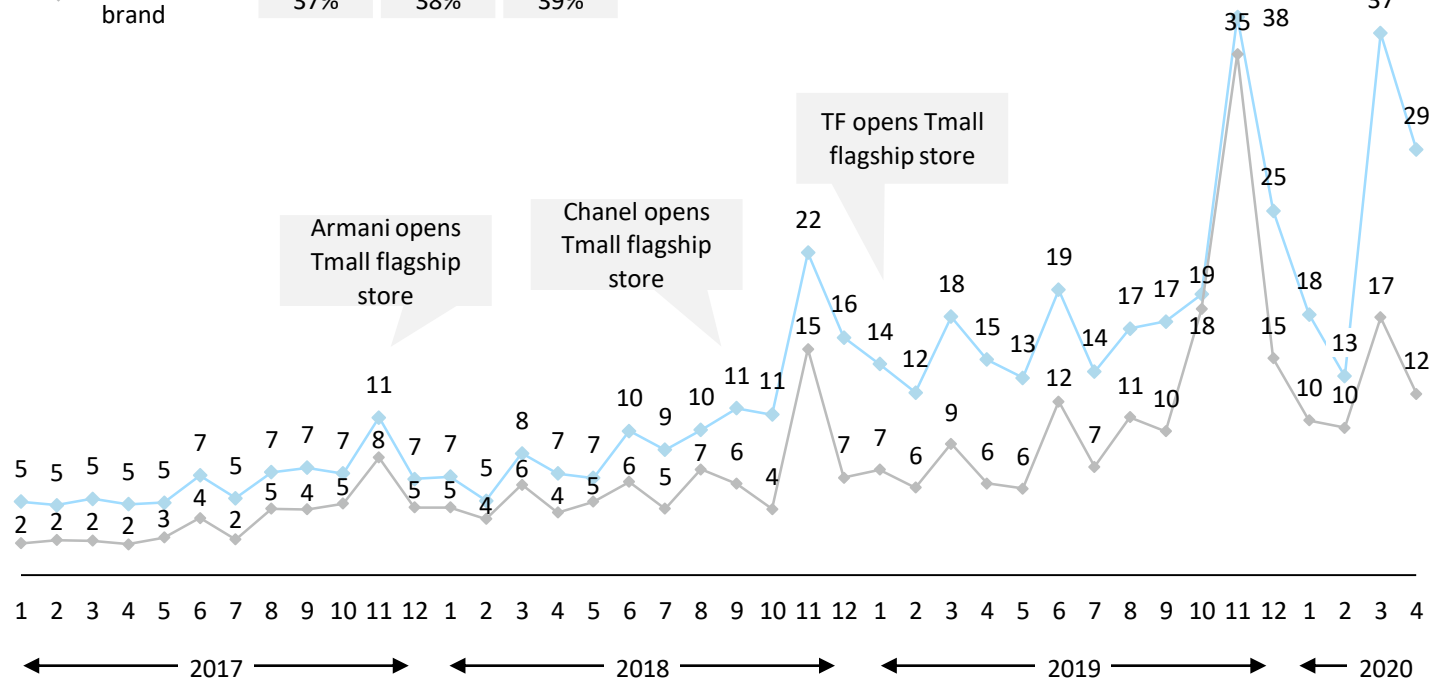
GMV share

Local brand
Overseas brand

	2017	2018	2019
Local brand	63%	62%	61%
Overseas brand	37%	38%	39%

Share of local leaders among all local brands
Perfect
Diary/MAOGEPING/Florasis

	2017	2018	2019
Perfect Diary/MAOGEPING/Florasis	0%	6%	18%

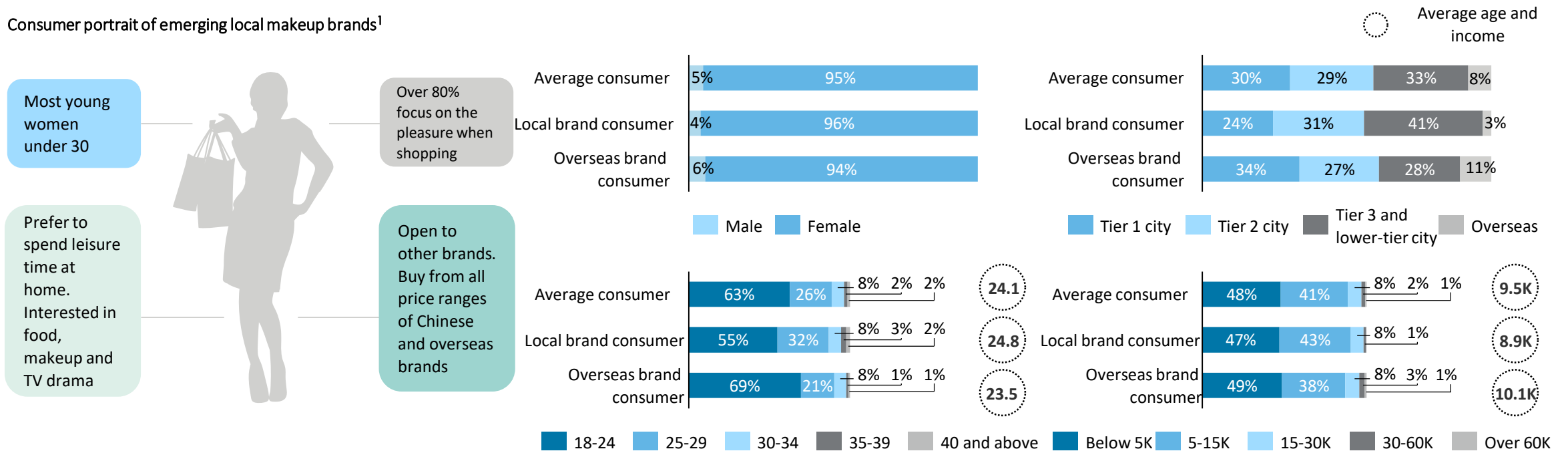


Source: Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.4: Deloitte big data shows women under 30, including a high percentage from lower-tier cities, are the dominant consumers of emerging Chinese brands

Mostly students and young professionals, these consumers are open to new things, with low income. A high percentage are from tier-3 and lower-tier cities

Consumer portrait of emerging local makeup brands¹



Compared with the average makeup consumer, consumers of emerging local brands are slightly older, at 24.8 years on average, and are mostly students and young professionals at the beginning of their careers. They are more open to new things but less loyal to brands. The accessible prices of local brands have attracted a high percentage of consumers from tier-3 and lower-tier cities, who have below-average incomes.

Note: 1. Consumer data are from social media. The average social media users is usually young, which may generate deviance from the actual consumer portrait. Source: Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.5: Overseas niche brands that emphasize texture or functions are growing fast in China, with accelerated market entry

Frequent mentions on social media and online platforms have helped draw the attention of consumers to overseas niche brands

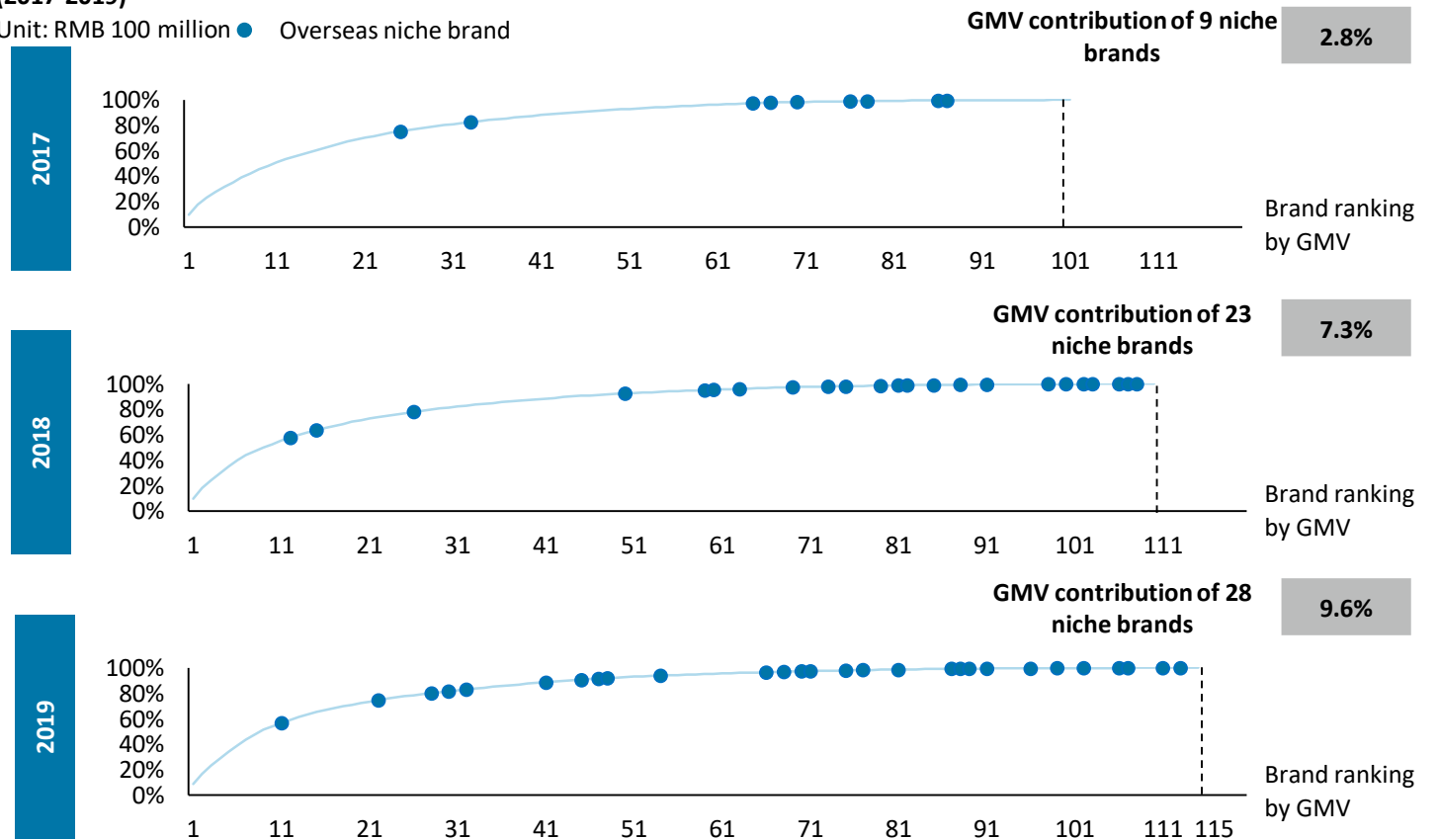
In recent years, niche overseas brands that emphasize texture or functions have been growing rapidly in China. While keen on purchasing famous brands, Chinese consumers are becoming more passionate about niche brands. From 2017 to 2019, Tmall has welcomed many niche overseas brands, with their GMV contribution growing from 2.8% to 9.6%.

Under the constant influence of social media marketing and word-of-mouth user recommendations, overseas niche brands are entering the market at a faster pace. Some are more established brands that focus on texture, such as Suqqu from Japan, By Terry from Europe and Hourglass from the US. Others are the personal brands of European and American celebrities or makeup artists that have distinctive styles, including Charlotte Tilbury, Fenty Beauty and Pat McGrath.

In recent years, the growth of this segment has been dominated by brands from Europe, the US and Japan. Korean brands, which gained an edge in the market with their good value for money, are in decline. Offline multi-brand retailers and online e-commerce platforms are the main paths into China for these brands. Tmall, a highly trusted channel with tremendous traffic, has become the preferred choice for close to 100 overseas brands to try things out and reach consumers. Well-performing brands can be found across a wide price range, from mass market products to luxury makeup.

Sales contribution of overseas niche brands¹ on Tmall (2017-2019)

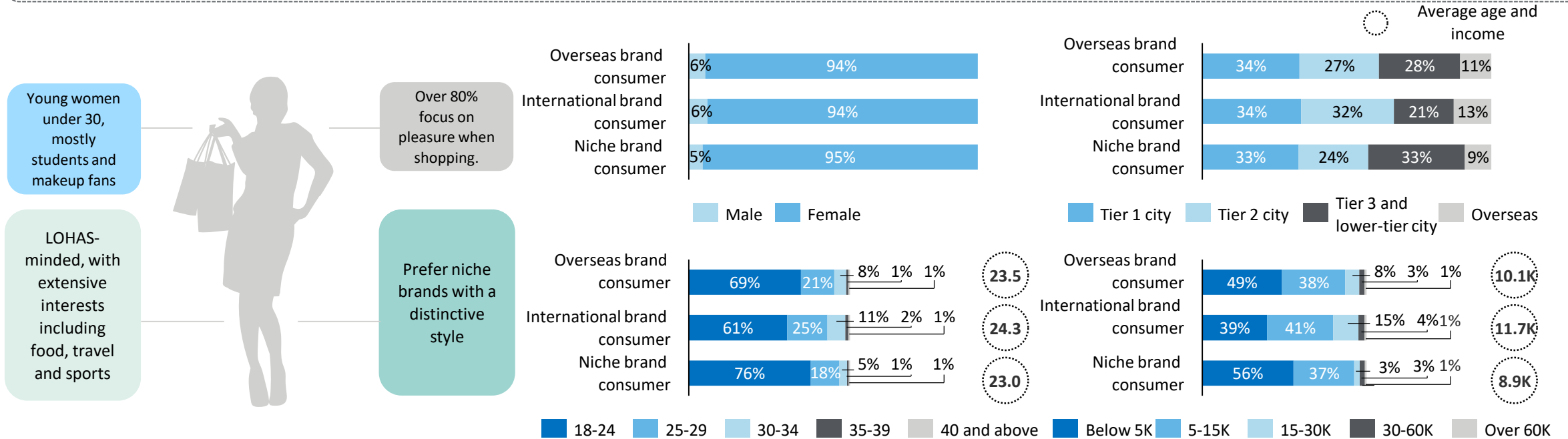
Unit: RMB 100 million ● Overseas niche brand



Note: 1. Overseas niche brands are defined as overseas brands that have joined Tmall International, but have not opened a Tmall flagship store. Source: Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.6: Deloitte big data shows young women under 30 dominate purchases of overseas niche brands, with different consumer profiles in different price ranges

Expensive brands mostly attract younger tier-1 city consumers, while cheap brands cater to older consumers from lower-tier cities. On the whole, consumers of overseas niche brands are quite young, active and outgoing, with a low average income and a wide range of interests, and able to think independently when deciding which brand to buy



Most consumers of overseas niche brands are young women under 30, mostly students and makeup enthusiasts who have a low income. They tend to be active and outgoing, with extensive interests and their own attitudes towards life, able to think independently when deciding which brand to buy. Consumer profiles are different for brands at different price ranges. More expensive European and American brands such as Charlotte Tilbury are more popular among tier-1 city consumers, who are younger but have higher incomes, while cheaper brands such as Korean names are well received by lower-tier city residents, who are older but have lower incomes.

Note: 1. Consumer data are from social media. The average social media users is usually young, which may generate deviance from the actual consumer portrait. Source: Deloitte Big Data Institute, Deloitte Research & Analytics

Trend No.7: A new generation of multi-brand retailers selling makeup and lifestyle products is on the rise, although their single-store model is still being refined

Multi-brand retailers are quickly gaining traction with their good value for money, rapid product upgrading and immersive shopping scenarios, but it will take time for their long-term success to become clear

Online channels have given birth to a variety of emerging and niche makeup brands, which are making a strong contribution to the overall market. That said, offline channels remain indispensable to makeup sales. Local multi-brand retailers have experienced fast growth in recent years, thanks to the high dependency of makeup sales on product sampling, diverse product options and attractive prices.

Unlike traditional players like Sephora and Space NK, emerging local retailers have created new business models riding the tide of local makeup popularity. They have integrated many brands and products that are good value for money, regularly updated, and displayed in a refreshing store setting with strong visual appeal and an immersive, scenario-based shopping experience.

Local multi-brand retailers have mushroomed since 2018, including The Colorist under KK Group, WOW Colour under Miniso, warehouse-styled HARMAY and two shopping mall-owned retailers: K11 Beauty under K11 and Parkson Beauty under Parkson. These emerging retailers, led by WOW Colour and The Colorist, started their businesses in tier 1-2 cities before quickly taking over the whole country as a new favorite offline channel with high traffic and sales conversion rates.

It will take time to see whether multi-brand retailers can be called a success, but they have proven online-offline integration, elevated shopping experiences and rapid upgrading of brand/product portfolio are important factors in sales.

Comparison of multi-brand retailers

The Colorist

- **Positioning:** Target young consumers, emphasize cost-effective products over brand
- **Product:** 50-60 good value brands from China, Japan, Korea, Europe and the US
- **Facility:** Stores of about 500 m² in a young, visually intense Instagram style, with clear zoning
- **Expansion:** Stores mostly in landmark shopping centers of tier 1-2 cities, with plans to open more than 100 new outlets in 2020

Little B

- **Positioning:** Target young consumers with a unique artistic shopping experience
- **Product:** Close to 30 brands of makeup, fragrance and household items, mostly overseas niche brands and Internet-famous products
- **Facility:** Stores of 100 m²-200 m² in a lively, avant-garde style, divided into art exhibition zones, retail zones and makeup zones to create an interactive experience mixing art and life
- **Expansion:** Stores mostly in key shopping centers of tier 1-2 cities, with ongoing new outlet expansion

Space NK

- **Positioning:** Target all age groups with hassle-free shopping experience for overseas brands
- **Product:** About 100 brands, mostly mid- to high-end European and American names
- **Facility:** Stores of 200 m²-800 m² of similar style to traditional makeup stores
- **Expansion:** Stores mostly on premium floors of shopping malls in tier 1-2 cities. All now closed, with plans to exit Chinese market

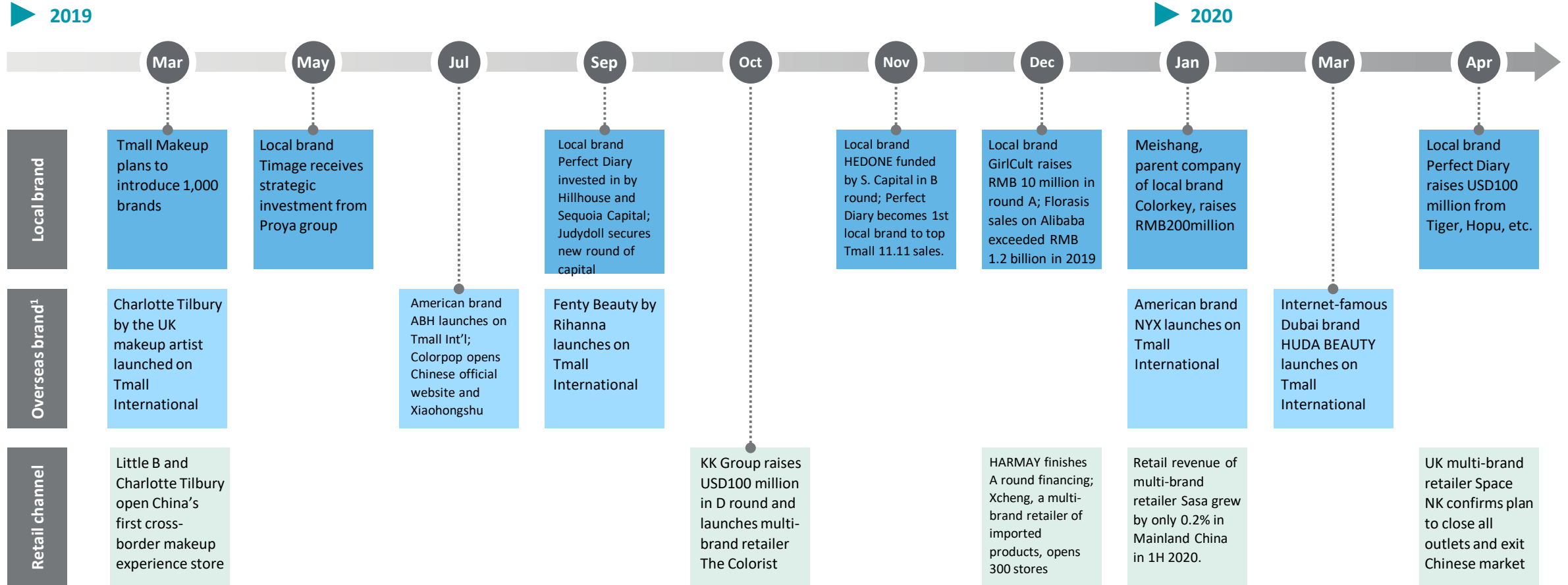
Appendix: The Chinese Makeup Market Chronicle 2019-2020



Appendix: The Chinese Makeup Market Chronicle 2019-2020

The past year has witnessed many major events in the Chinese makeup market that are indicative of industry trends. Based on their nature, they can be roughly categorized into the rise of brands and the evolution of sales channels

The Chinese makeup market chronicle 2019-2020



Note: 1. Overseas brand includes only foreign brands with over 1 million Instagram followers that entered China for the first time in the previous year. Source: Deloitte Deloitte Big Data Institute, Deloitte Research & Analytics

Follow-up



Follow-up

We will provide updates on the market movements and topics discussed in the Chinese makeup market with a follow-up report

The follow-up report will cover the following topics:

- 1 Chinese Makeup Market: Consumer Insights
- 2 Chinese Makeup Market: The Rise of Niche Brands
- 3 Chinese Makeup Market: The Evolution of Multi-Brand Retailers



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