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MASTER OF BUSINESS ADMINISTRATION

Factors affecting brand loyalty of facial cream in Shanghai cosmetic market

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Abstract

The purpose of this research is to investigate main factors that influencing brand loyalty in Shanghai cosmetic market. Furthermore, it identifies current brand loyalty level in Shanghai cosmetic market. The first part of this paper introduces the background of China cosmetic market, problem definition, research objectives and significance of this study. The second part is about literature review. Previous research mentions demographic of consumers (gender, age, income and education) and other four factors (brand name, product quality, store environment and service quality) may affect brand loyalty in cosmetic industry. Above eight factors are adopted in this study. The third part of this paper is research methodology that include source of data, questionnaire and data analytic methods. Questionnaires are distributed and self-administered to 200 customers who visit in shopping mall. The chapter four is relevant to data analysis. The research result shows current brand loyalty level in Shanghai cosmetic market is relatively low. Income and education level positively affect brand loyalty in Shanghai cosmetic market. The findings indicate there is a positive relationship between (brand name, product quality and service quality) and brand loyalty in cosmetic market. Among these factors, product quality is the most important factor affecting brand loyalty. The last part of this paper provides conclusions and reasonable recommendation. Hence, it encourages cosmetic companies to endeavor in improve cosmetic quality. Furthermore, cosmetic companies 'promote' their brand name and carry out appropriate human resource policies to improve service quality.

Key words: Brand loyalty, cosmetic industry, Shanghai

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Chapter 1

Introduction

1.1 What is cosmetic market?

'Cosmetic' are not strange to everyone, even though some people don't use them. They definitely hear about them. Cosmetics were invented in thousands years ago. When cosmetics were introduced, they were considered as exclusive things used by females. In those times, only few kinds of cosmetics existed. Some people believe cosmetics are limited by some sorts such as perfume, makeup. Actually, cosmetics come in many forms. Except for perfume and makeup, they comprise of shampoo, soap, lotion and others. Cosmetics are used to care for and clean people' body, maintain people in a well condition and enhance people' beauty (Kumar et al., 2006). For instance, the goal of sun protection is to keep out UV and reduce the risk of getting skin cancer.

In the past, men who were using cosmetics to dress up would be treated effeminate. Certainly, people didn't hear about men's cosmetic advertising. Nowadays, the reality has gradually changed. The cosmetics have not been the patent of women. Men and kids join in group of using cosmetics. The number is increasingly growing up. Estée Lauder as the first women's cosmetic companies tried to enter the male cosmetic market in 1964. After 1 year trial, it came out with Aramis and an entire line for men's skin (Alpern, 1997). In cosmetic market, thousands of cosmetics for men and kid are available. In past ten year, cosmetic companies launched some products that were suitable for both men and women. As male consumers increase, companies start to launch new product line for men. Exclusive perfume and cleansing foam were designed for men. In order to target

these emerging potential consumers, many cosmetic companies invest a lot on advertising through TV, beauty magazine and others. The aim of the advertisement is to convey the idea that cosmetics are not girly products. Some big cosmetic companies employ famous actors or sportsmen to promote products through positive imagery. It lets men believe that using cosmetics is very normal (Souiden and Diagne, 2009).

The cosmetic industry is one of the most competitive industries all over the world because more than 300 cosmetic brands exist in the market. Most of these companies utilize great number of resource in research and development to launch new products every year in order to meet ever-changing consumers' need and demand. Innovation is fundamental to survival and success of cosmetic companies (Kumar et al., 2006). To stay vantage point during fierce competition, cosmetic companies should create value to consumers.

The World' top ten cosmetic companies are Maybelline accounting for 7.4% market share, Avon (5.4%), L'Oréal Paris (5.3%), Lancôme (4%), Clinique (3.6%), Revlon (3.3%), Estée Lauder (2.9%), Max Factor (2.8%), Cover Girl (2.7%) and Shiseido (2.2%) All of them seize about 40% of the market share (Ejiofor, 2006).

1.2 Overview of cosmetic market in China

China is the countries with the largest population in the world it makes up one-fifth of the world's population. The population growth rate of China is 0.629% in 2008 with a current average life expectancy of 73.18. Men possess 51.8% of the total population whereas women possess 48.2% (Riley and Nancy 2008). Chinese paying more attention to beauty can be traced back two or three years to ancient

China. It has been deeply rooted in Chinese culture. In Chinese poetry and art, beauty has always been extolled (Newham, 2006).

Before the reform and open door policy were implemented, China's economy was very not good. Most of income of Chinese was spent on food, transportation and house. They didn't have extra money to buy cosmetics. Through proper economy' policies carried out by Chinese government, economy is now booming in China and people's living standard is increasingly improving. People have more disposal income to spend on beauty. More and more people absorb beauty information from different sources. Some of them become 'beauty professionals'. They believe spending money on beauty as a valuable investment. Attractive appearance and figure will assist them to get benefits in career and social life, because everyone loves beauty (World Wide Watch: China).

In order to join World Trade Organization (WTO), Chinese government reduced import tariffs. Due to reduction of import tariffs, cosmetic import has increased 160% from 1996% to 2001(Li,2003). Since 2001 China entered WTO, it provides a good opportunity for foreign cosmetic companies to access China's market. For these companies, China is a big emerging market with the largest population. In a saturated market like Europe, cosmetic companies have difficulty boosting their sales. Many foreign companies joint venture with domestic manufacturers through advanced technology along with products and huge capital: and set up plants in coastal regions such Guangdong province and Shanghai in China. Top twenty cosmetic brands have flowed in China cosmetic market. For example, advanced technology assists to effectively reduce production costs and improve product quality as well.

Strong economic growth in China shock people all over the world, but cosmetic market in China is growing faster than China's economy. According to China's

National Fragrance and Flavor industry Association, cosmetic sales in China have increased by 16.6% to \$4.2 billion in year 2001. In year 2004, the sales jumped to 85 billion yuan. China is considered as the second largest cosmetics market in Asia, and ranks no.8 worldwide. Cosmetic spending was 1yuan during the early 1980s, but spending dramatically went to 25 yuan in year 2000. Even in big famous cities Shanghai, Beijing, the annual average spending on cosmetics was among 150-180 yuan (LI&FUNG Research Centre, 2005). Compare development of cosmetic market among Asia, growth rate of cosmetic market is significantly faster than other countries and regions (Table 1.0). Even around the world, this kind of growth rate is fantastic. Hence, "China is the market cosmetic companies will never give up. China is one of the most important countries for our overseas business operations; it is a huge market backed by a population of about 1.3 billion about 10 times Japan's population" (Tadakatsu Saito, cited by Tao, 2005).

	Total market in value (2002) (US\$million)	Growth 2001/2002
China	5,400	+20%
Korea	3,120	+9.8%
Taiwan	1,470	+3%
Malaysia	760	+3.5%
Singapore	202	+3%

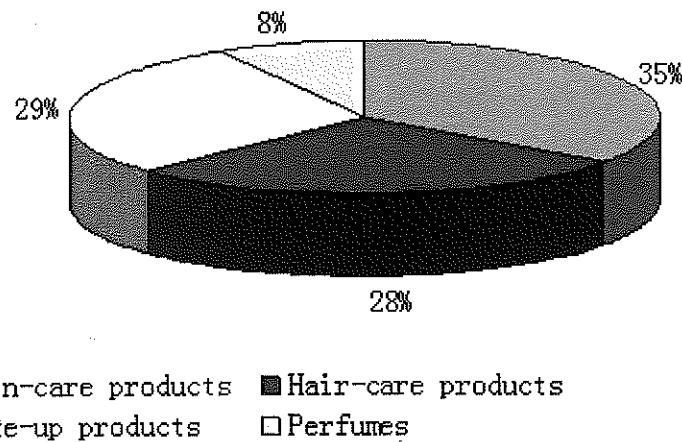
Table 1.0: Cosmetic market in value for some Asia countries/Regions

Source: China cosmetics industry 2005

Consumption tax introduced by the State Administration of Taxation gave benefits to domestic cosmetic companies develop. 11 categories of goods such cigarette, car are subject to consumption tax. The aim of consumption tax is to narrow the income gap between rich group and poor group. Usually, richer people prefer to purchase luxury to represent their social status. Consumption tax collected by Chinese government will be used to assist poor people in China. The widening gap currently became serious social problem in China. High-end cosmetic is subject to 30% consumption tax and basic cosmetic is subject to 0% (Fang, 2005). Actually, most foreign brands are considered as luxury. For domestic cosmetic companies, they can provide competitive price to consumers. In areas with lower income, it may be more attractive to consumers than foreign brands.

Competition of China cosmetic market is very intense because more than 300 brands exist. However, target markets of domestic and foreign brands may be different. For example, consumers in large cities with a higher level of disposal income have preference for famous brands from foreign countries. Outsidess the metropolitan area, however, many consumers are purchasing products produced by local companies. In 1980s, there were more or less 40 cosmetic brands available in China cosmetic market. These brands only offer limited products such as Shampoo and lipsticks. Cosmetics like perfume were used by few people. However, currently more than 300 brands can be found in market. With regard to cosmetic types, skin-care products account for 35% of total cosmetic output, hair-care products possess 28%, make-up products and perfumes are 29% and 28% respectively (Figure 1.0).

Figure 1.0: Proportion of output of Chinese cosmetic



Source: M&A Analysis and Research Report on Cosmetic Industry in China 2008

In early 1990s, the regulations on Cosmetics in China were very imperfect so that China cosmetic market was not satisfying. A huge number of small cosmetic enterprises raid the market healthy development (Li et al., 2005). Regulations on Cosmetics Hygiene Supervision are the basic laws and regulations on cosmetics that were enacted by Ministry of Health on November 13, 1989 and put into effect of January 1, 1990. They include general provisions of cosmetics, hygiene supervision over cosmetic manufacture, hygiene supervision over cosmetics distribution, the organ for Hygiene supervision over cosmetics and its duties, penalties and supplementary provisions. For instance, cosmetic ingredients must abide by standards set by Regulations on Cosmetics Hygiene Supervision. Besides, with regard to labeling, the regulations set down provisions. On the label of cosmetics, the name of the product, the name of the producer and the serial number of the hygiene license for the producer should be clearly stated. Lots of false advertisements existed in the past exaggerate the effectiveness of the products to misguide consumers. Regulations ban false and misleading statements in advertisements (Regulations Concerning the Hygiene Supervision

Over Cosmetics). On the other hand, the related authority actively attacks false advertisements. As rapidly development of cosmetics, regulations gradually become more complete. China cosmetic market is standardization and is brought in line with international practice. Complete regulations guarantee sound development cosmetic market. More and more cosmetic manufacturers with corporate social responsibility have consciously complied with regulations.

With rapid China cosmetic market development, cosmetic distribution channels are diversified. Different kinds of modern retail distribution channels swarm into market. In the past, Chinese consumers bought cosmetics through supermarkets and hypermarkets. Most of cosmetics they purchase were 'basic' cosmetics such soap, shampoo. In that time, scarce premium cosmetic brands were in the market due to high tariff. Accounting to beauty retailing China 2005, 80% of cosmetics and toiletry sales were completed through hypermarkets and supermarket. Except for supermarket and hypermarket, department store is the other major channel that is very popular among Chinese consumers (Pitman, 2005). In China, cosmetic companies open specialty counters on the first and second floors of department store. These counters forming cosmetic areas are convenient for consumers. Not every cosmetic brand is able to own specialty counters. The premise is that the brand should have a wide range of products and distinctive brand name and images. Therefore, consumers believe cosmetics sold in department store have reliable quality and can be safely used. Nowadays, various channels including Pharmacy chains, specialty stores professional stores exist in the market. Specialty stores provide professional services and full range of products of a particular cosmetic brand. Actually, specialty stores in China are owned by former cosmetic direct selling companies such as DHC. Because direct selling business model is generally prohibited by China government unless license is given by China government. Avon as a leading direct selling cosmetic

company was successfully granted direct selling license in year 2008. It's also the company obtaining the first direct selling license in China. For most of companies, specialty stores as the effective way for them to adjust their business models (LI&Fung research center, 2005).

Rapid development of China cosmetic industry has went on over the last two decades. Cosmetics become the fifth largest consumption products by Chinese consumers. This market still has a great room to develop and is far way saturation. There are two main reasons. On one hand, China has a population of 1.3 billion so that it has a large potential customer. China government has committed itself to develop the middle and western part of China to balance the economic gap between east and west China. The grand western development program is in process. The purchasing power of west China will become strong in future. On the other hand, the current capita annual spending on cosmetic of Chinese consumers is still far below that of developed countries. Capita annual spending on cosmetic of Denmark and Sweden has reached €171 (Global Insight, 2007). China economy is still booming so that people living standards will increasingly improve. Consumers will spend more money on cosmetics. For cosmetic companies, China is expected as a market with enormous business opportunities (LI&Fung research center, 2005).

1.3 Why choose Shanghai?

Shanghai has the world's fastest growing economy. The population of Shanghai is about 16 million, financial income is more than RMB 6 billion, GDP Per Capita is RMB 37,382 and average annual people salary is about 21,781 in financial year 2001 (Zhao, 2005). Shanghai is the biggest commercial city in China; GDP has continuously grown up in past 13 years. In year 2004, GDP growth rate has achieved 13.6% (Wu and Delong, 2006). Shanghai alone accounts for a large

proportion of the target markets for cosmetics. Eastern coastal region is critical to the whole China's cosmetic retail sector. At present, total cosmetic retail sales of Shanghai, Beijing, Jiangsu province, Guangdong province, Zhejiang province and Shandong province is up to 55% of nation cosmetic retail sales. Among them, Shanghai accounting for 12% ranks first, followed by Beijing, Jiangsu province (HKTDC, 2002). Shanghai is just a city compared to one whole province; cosmetic sales of it are still higher than that of province. It proves that cosmetic used by Shanghai people is really popular.

Furthermore, Shanghai is viewed as 'fashion capital' in China. In Asia, its status has gradually been enhanced. It plays a key role on leading fashion in Asia. Many people believe Shanghai is 'The Paris of the East'. Everything managing people's appearance and figure are considered as fashion process (China stock market digest blog, 2009). Hence, expect for apparel, cosmetic, jewelry and others are parts of fashion people pursue. Cosmetic are used to enhance people's beauty, exhibit their personality and aesthetic preference (Guthrie et al., 2008). Consumers from other cities and province may imitate how Shanghai consumers make up, which facial cream brands they use.

Another main reason of choosing Shanghai is that mostly cosmetic brands no matter international brands or domestic brands can be found in Shanghai cosmetic market. According to the Shanghai Commercial Information Center, Shanghai is not only a place of using cosmetics, but also a major place producing cosmetics. Except for domestic manufacturers, many foreign cosmetic companies set up plants in Shanghai. Shanghai has a sound production environment. Most of suppliers, manufacturers are located nearly in industrial area so that it facilitates communication and assists to reduce transportation costs (HKTDC ,2002).

As the economic and financial center of China, Shanghai as locations of this study is selected. The findings of this study can give an overall understanding of brand loyalty of Chinese consumers in cosmetic market. Shanghai may be more representative in contrast other areas, because a huge number of people in Shanghai are from different cities and areas of China. Hence, it ensures respondents of this study have different backgrounds.

1.4 Why select facial cream?

For this research, the researcher selects facial cream among thousands upon thousands cosmetics. The reason is that facial cream is one of the popular cosmetics in China market and also has large market potential. By contrast, cosmetics like shampoo, soap have already reached saturated because growth rate is very slow (HKTDC,2002). According to figure 1.0, skincare products account for around 35% of cosmetics market share and still are the main stream of cosmetic consumption. At the same time, skincare products are the one with bigger market potential and highest profit in cosmetics market. In the skincare segment, facial care is the largest product category consumed by Chinese consumers in China .Facial care includes facial cream, facial cleanser, toners, masks and sun protection. Facial cream can be categorized into moisturizer, whitening cream, anti-ageing cream, nourisher and others depending on its function. Moisturizer and nourisher already constitute nearly 71% of facial care market share (Fukuda, 2004). These cream are sold well in China because of dry weather. On the other hand, the whitening cream in China is supposed to be prevalent due to China's culture. White skin is one standard characteristic of the Chinese concept of beauty. Chinese proverb say ' Yi Bai Zhe San Chou'. It means white can offset three uglity. Skin tone is very important viewed by