Ocean Engine | KANTAR WORLDPANEL
A CTR SERVICE IN CHINA

TIME TO STRIKE

2021 BEAUTY INDUSTRY WHITE PAPER

2021

Preface:

China's beauty industry had undergone years of rapid development, even in the face of the 2020 pandemic, and the market was able to rebound quickly, thanks to increasing consumption power and fierce competition furthering growth. At the same time, evolving consumer demands have pushed brands to innovate. While no brands are completely safe in maintaining their market position amid ever-changing market environments, all brands have the potential for phenomenal growth through adaptation and transformation.

Brands must continuously explore market opportunities, and continue to refine their product portfolio and brand equity accordingly; this will allow them to build an identity that can resonate with a clearly defined target audience group.

This white paper from Ocean Engine and Kantar Worldpanel provides an overview of the Chinese beauty market and highlights possible growth opportunities for different brands to explore.

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EMERGENCE

01

Market Overview

"Resilience and Growth"

01. E-commerce is the engine behind market recovery and is growing through a wide variety of diversifed platforms

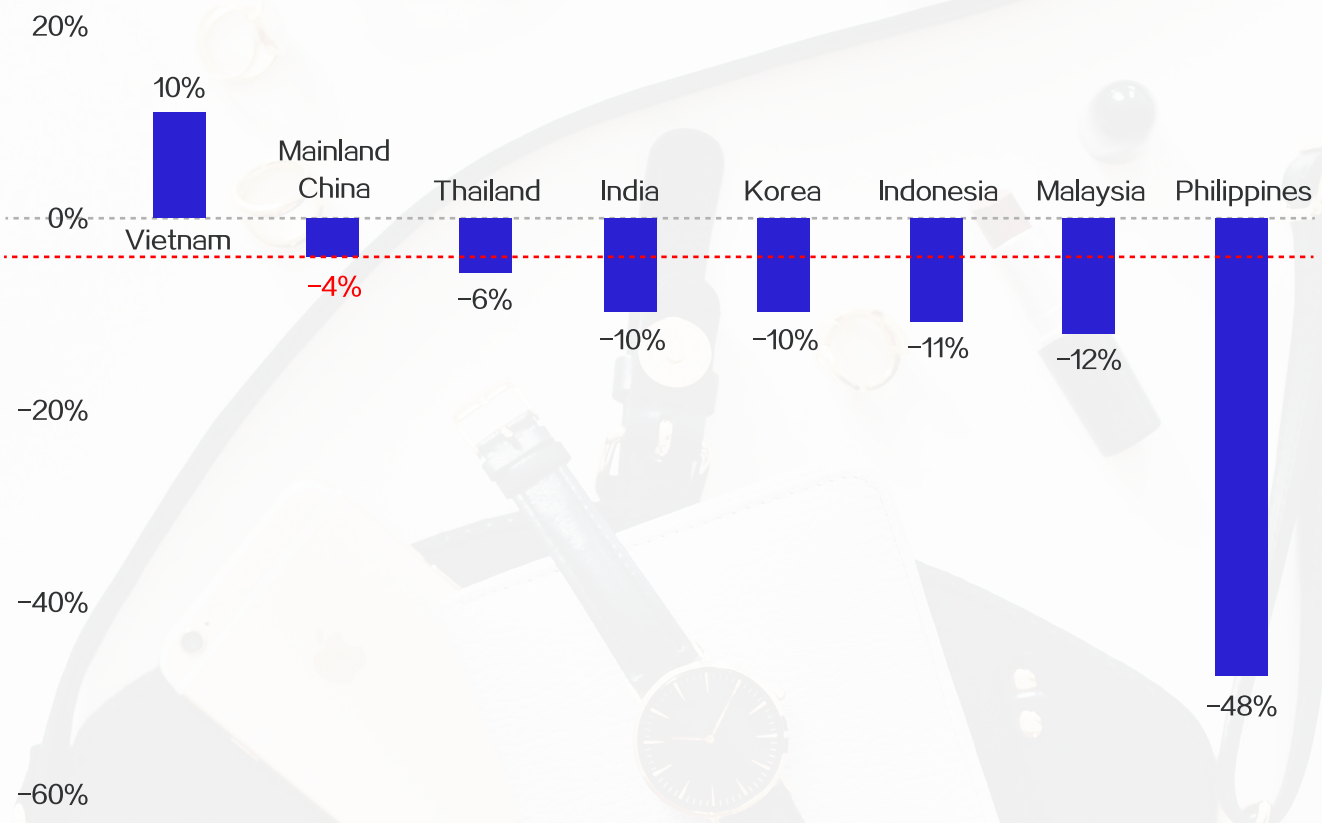
02. Digital content is undergoing explosive growth to stimulate consumer interest and interactions

03. E-commerce is pivotal to securing brand competitiveness

Asian beauty market hit hard amid the pandemic, but China remains resilient

The COVID-19 pandemic had negatively impacted beauty consumption in most countries across the world. While Mainland China was one of the first market to be hit, it was also among the quickest to recover. Despite recording double-digit YoY decline in the first quarter of 2020, China's beauty market value almost fully recovered to the previous level by the end of the year. The relative resilience of the China market was mainly powered by successful pandemic control measures, and its rebound points to an optimistic future outlook.

Cosmetics Category Value Growth across Asian Markets



*The India data only covers facial skincare performance.

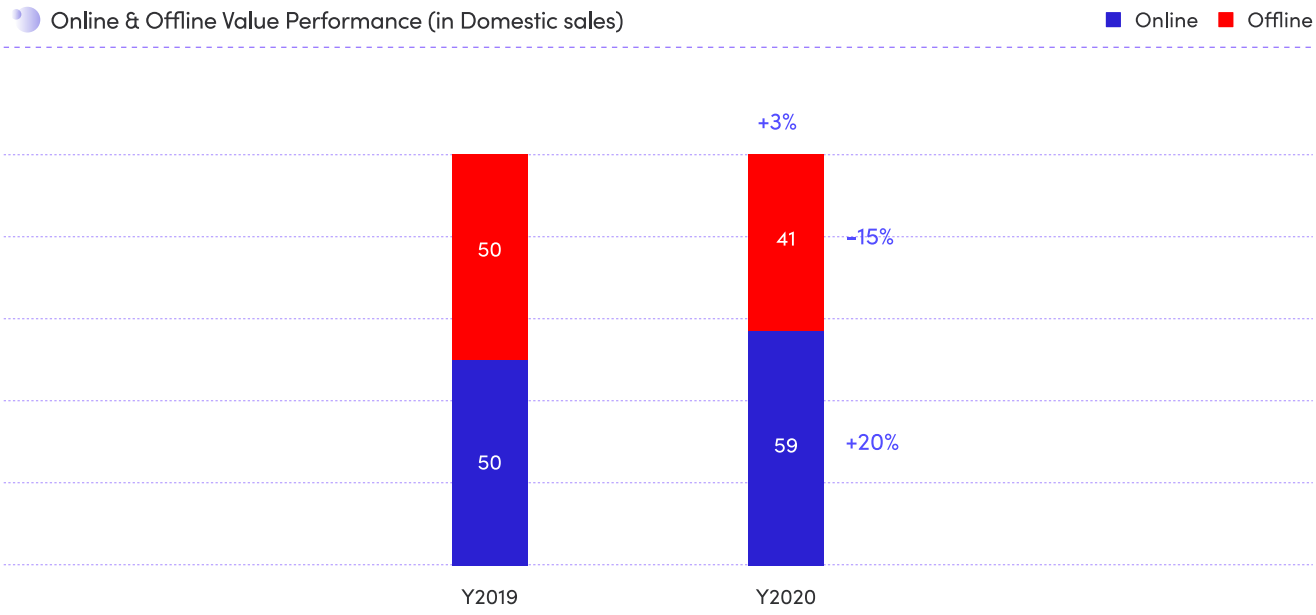
Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019.

E-commerce is the engine behind market recovery and is growing through a wide variety of platforms

E-commerce enjoyed a +20% growth in 2020. As the fastest growing channel, e-commerce expanded its market share from 50% to 59% between 2019-2020.

Many brands accelerated shift from offline to online in their retail strategy. This trend was particularly noticeable among international brands trying to offset the loss from global travel retail demand. Moreover, more brands and retailers are aggressively applying digital technology to better engage with offline shoppers, making further breakthroughs in innovative retail models like O2O.

Online & Offline Value Performance (in Domestic sales)



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Digital content is undergoing explosive growth to stimulate consumer interest and interaction.

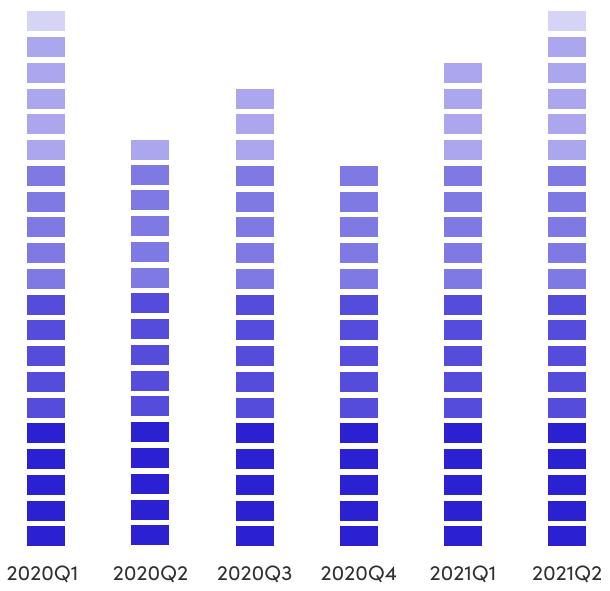
CONTENT

Consumers are paying extra attention to beauty-related contents, which helps boost brands' sales performance, especially during the online shopping festival periods

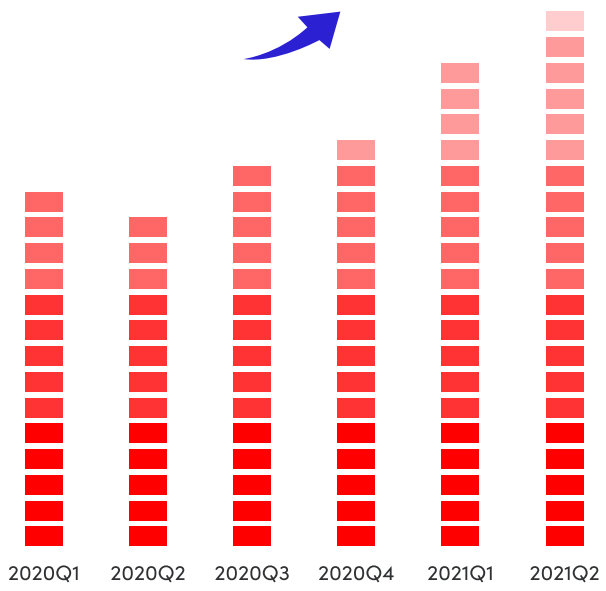
The explosive growth of digital content in China coincided with the expansion of e-commerce in the last few years. Chinese consumers are proactively looking for contents based on their interests, making purchasing decisions based on the relevant information they can find on different products and brands. There has been a particularly strong surge in the short video sector, as can be seen in a sharp increase in the number of Douyin beauty content search since Q1 2020.

Beauty content search and view trend from last year shows a clear surge since Q3 2020, which coincides with summer vacation and the pre-online shopping festival periods. This indicates that consumers are devoting more leisure time to beauty content browsing and consumption, resulting in a healthy growth of the industry.

2020-2021H1 Beauty Content Views



2020-2021H1 Beauty Content Searches



Data Source: Ocean Insights, 2020Q1-2021Q2

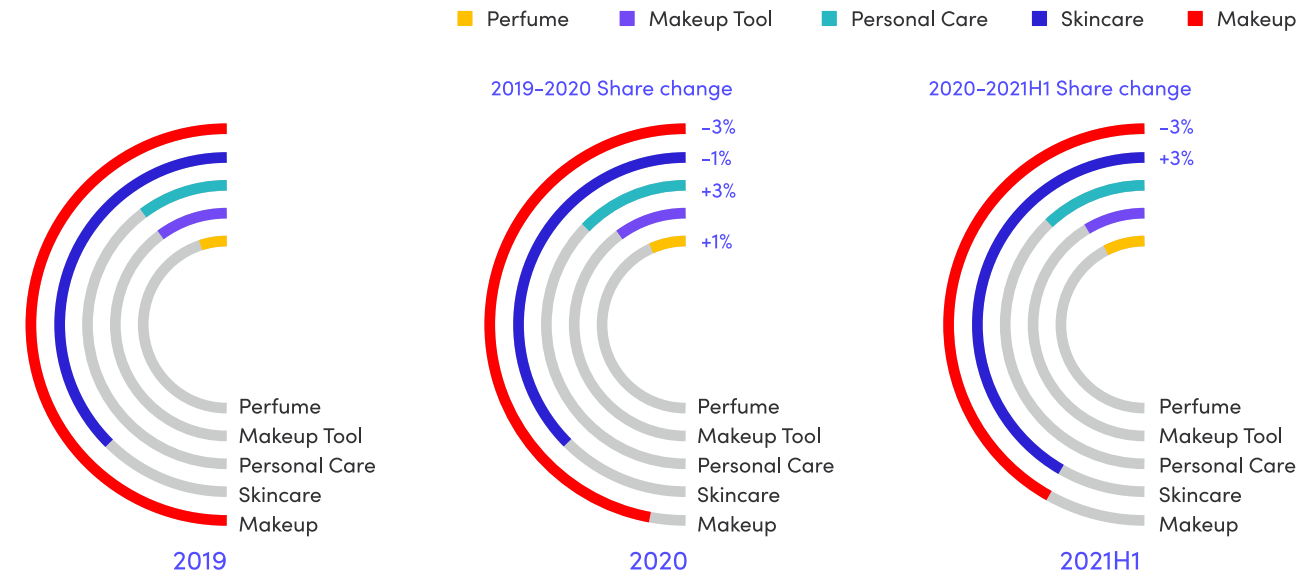
CATEGORY

Growth of digital content projected to continue, especially the ones showcasing more sophisticated lifestyles

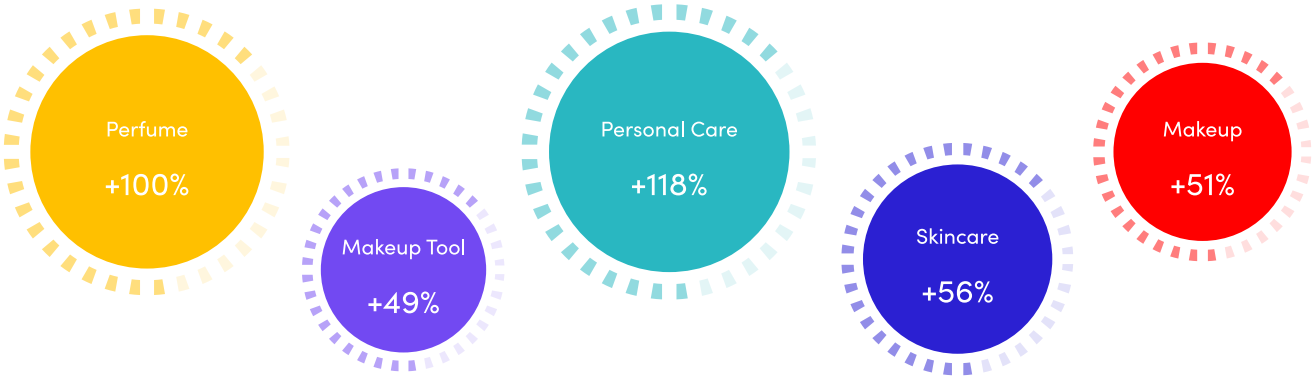
According to Douyin's 2020 Beauty Content Statistics, skincare and makeup related contents account for the largest share in terms of beauty content, maintaining a strong growth momentum at 50+%.
It is important to note that this growth is driven by skincare, which increased by +3%p in share between 2019 and H1 2021, while makeup has been on a steady decline.

There has been a strong growth in contents related to more sophisticated lifestyles, featuring niched personal care segments and perfume products. Innovative products such as mousse body wash, scented body wash, and hair loss treatment shampoo are examples of products that reflect an overall upgrade in consumers' spending power and demand.

2019 - 2021H1 Douyin beauty content view share by category



Year-on-year growth rate of livestream content in 2020



Data Source: Ocean Insights, 2019-2021H1

CREATORS

Everyone is participating in content creation, and content quality is improving

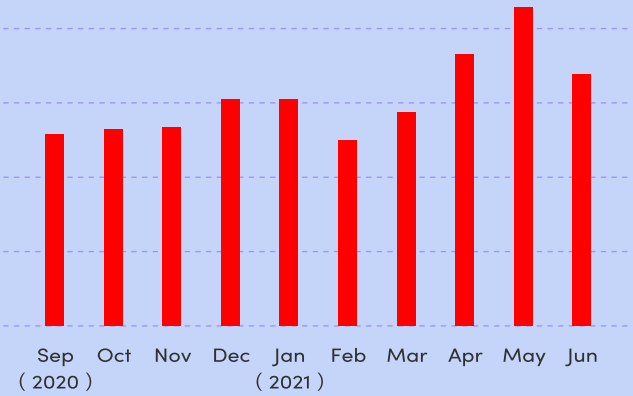
In 2021, the Douyin content ecosystem has become more prosperous. From amateur content creators to KOLs and official brand accounts, the creator community has blossomed amid growing consumer interest in beauty-related contents. A large number of amateur creators is the reflection of more consumers moving away from being a passive information receivers to actively voicing their opinions and thoughts. In 2021, the number of new beauty content creators peaked in Q2, during the summer seasons. The prosperous ecosystem has also nurtured the rise of more talented influencers. The number of beauty KOLs on the platform has been increasing since 2019, and it has more than quadrupled by June 2021.

Brands are also paying more attention to content marketing amid the growing community; in 2020, there were over 50,000 official accounts on Douyin that grew by 1.8 times in the number of followers and doubled in the number of contents published. The owned media accounts are effective means for brands to gain insights into potential audiences, capture new consumers and convert loyal customers.

Beauty Content Creators

Beauty Content Creators

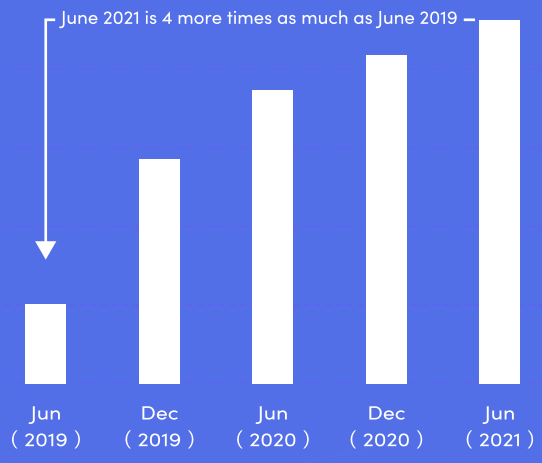
2020-2021H1 Number of beauty creators



Beauty content creators are becoming more active in summer to address the consumer needs related to various skin concerns such as sun protection.

Beauty Influencers/KOLs

2019-2021H1 Number of beauty KOLs



Beauty brand official account

Number of beauty brand official account as of June 2021

70,000+

Growth in the number of beauty brand official account followers as of 2019-2020

1.8x

Growth in the number of contents published by beauty brand official accounts as of 2019-2020

2x

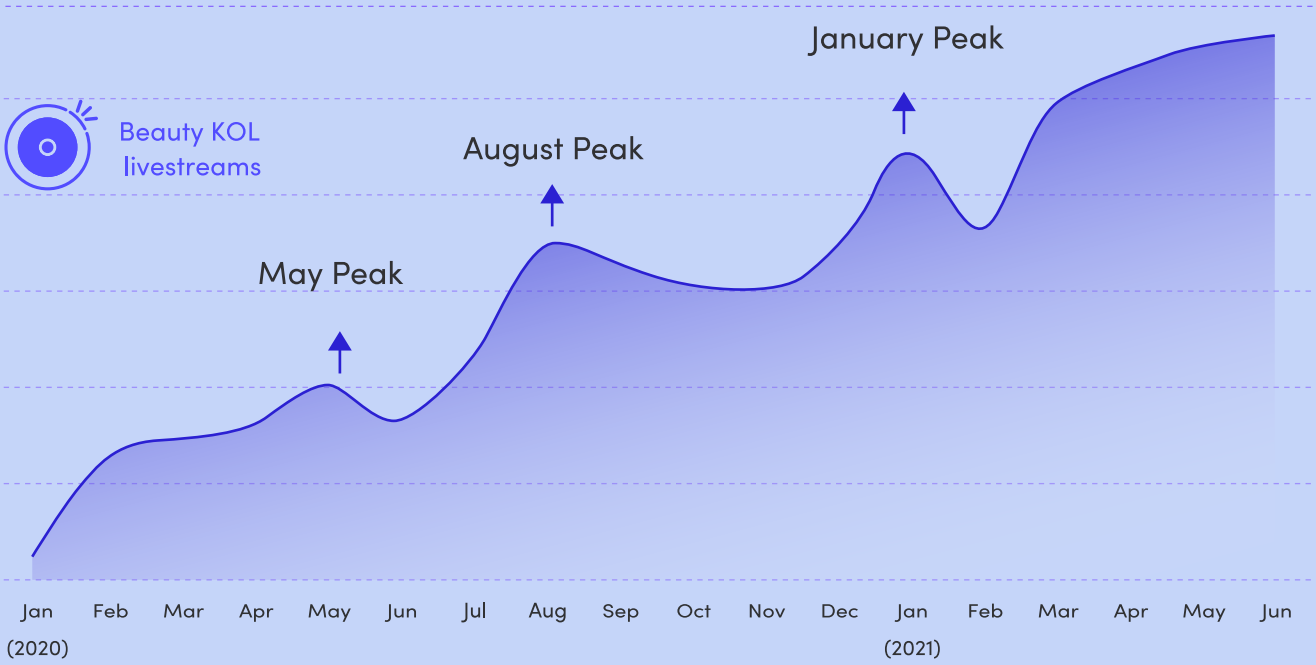
Data Source: Ocean Insights, 2019-2021H1

LIVESTREAMING

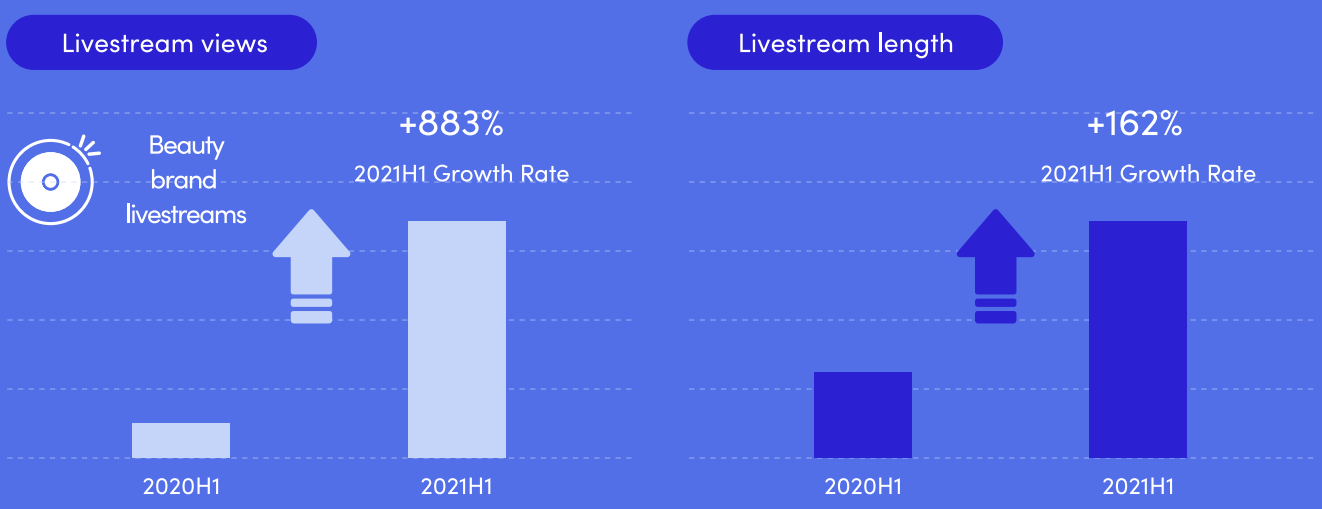
Livestreaming is contributing to holistic brand communication, and live-commerce offers an incremental business opportunity

Combining immersive consumer experiences, customized product recommendations, and content-driven promotions, livestreaming has become a retail disrupter since 2019. On Douyin, livestream content created by both KOLs and official brand accounts have soared in both the absolute number of viewers and viewing time. Livestreaming is now playing a significant role in raising brand awareness, reaching new customers, and helping businesses diversify their revenue stream.

2020-2021H1 Beauty KOL livestream views



2020-2021H1 Beauty official brand account livestream views



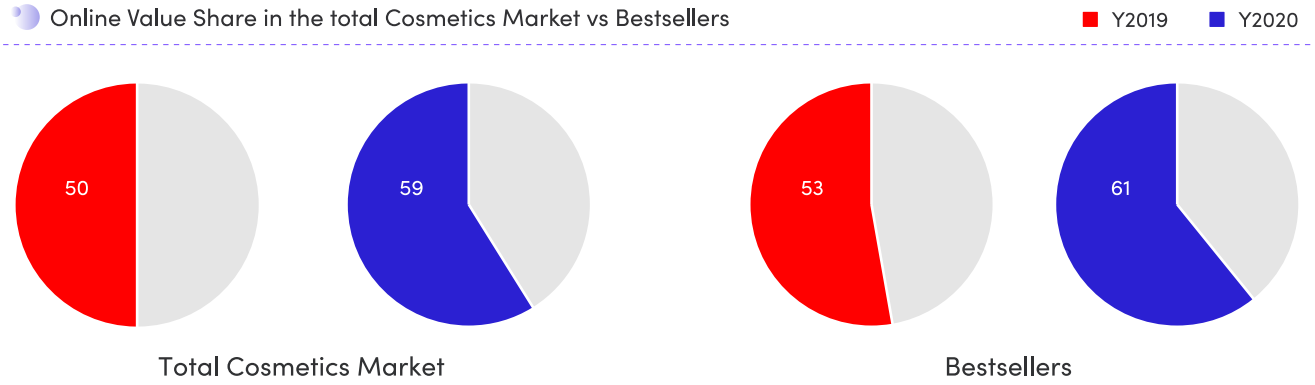
Data Source: Ocean Insights, 2020-2021H1

E-commerce is pivotal to brand competitiveness

E-commerce is the top choice for promoting bestsellers

E-commerce has become an industry standard for brands looking to reach new consumers segments and expand product sales. As such, more brands are leveraging this channel to drive their bestseller performance and attract more consumers. Kantar Worldpanel research shows that e-commerce accounted for 61% of the cosmetics bestseller sales in 2020, which is a significant increase from 53% in 2019.

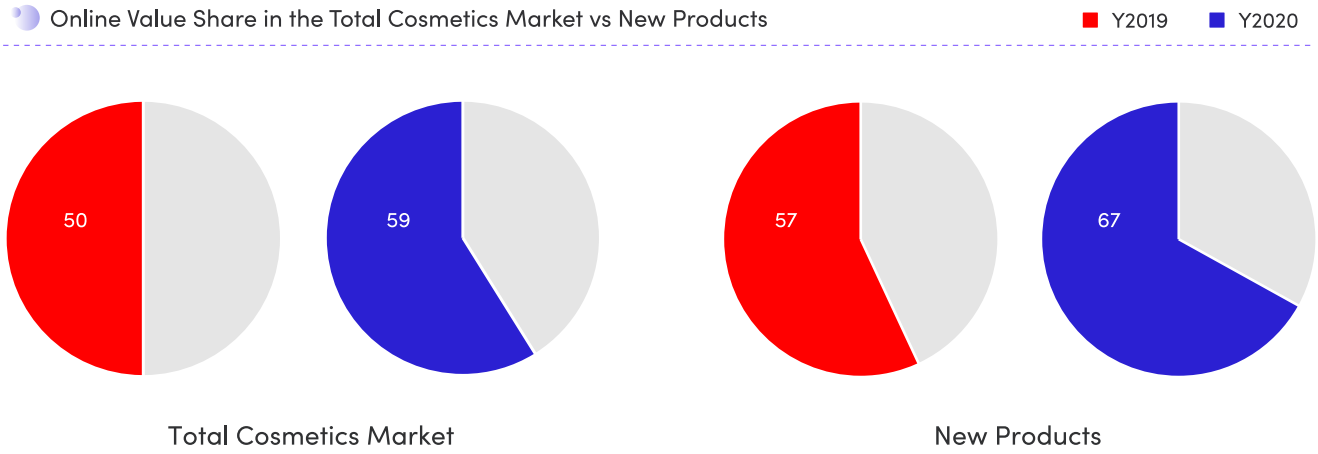
Online Value Share in the total Cosmetics Market vs Bestsellers



E-commerce is the first choice for brands looking to launch new products

As more brand communication and content consumption turns digital, e-commerce is becoming the key to drawing attention towards new product launches. According to Kantar Worldpanel, e-commerce contributed to 67% of new product sales in 2020, outperforming both the overall beauty market and best-selling product sales. Many brands are now considering e-commerce as a main battleground for their new launches.

Online Value Share in the Total Cosmetics Market vs New Products



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Content emphasis shifts from promotions to experiences that better inspire consumer interest

Information about new product launches can be easily spread on content platforms such as Douyin. In 2021 Q1, products like Estee Lauder's Perfectionist Pro Essence, Perfect Diary's Read Me Lip Tint, and L'Oreal's Revitalift Cream attracted much consumer interests through Douyin. Additionally, there was a strong surge in other contents related to new lip gloss, lipstick, and makeup giftset products, coinciding with strong sales performance at the same time. These contents not only helped drive new product sales through e-commerce but also led to offline sales uplift.

2021Q1 Beauty new product launch showcase

Essence

Likes
240,000

Estee Lauder Perfectionist Pro

- Patented AF3 ingredient
- Spot care
- Improve skin condition
- Herbal extract
- Brightening

Lip tint

Perfect Diary "Business Card" Lip Tint

- Lightweight
- Brightening
- Everyday look
- Diverse style

Likes
140,000

Face cream

Likes
40,000

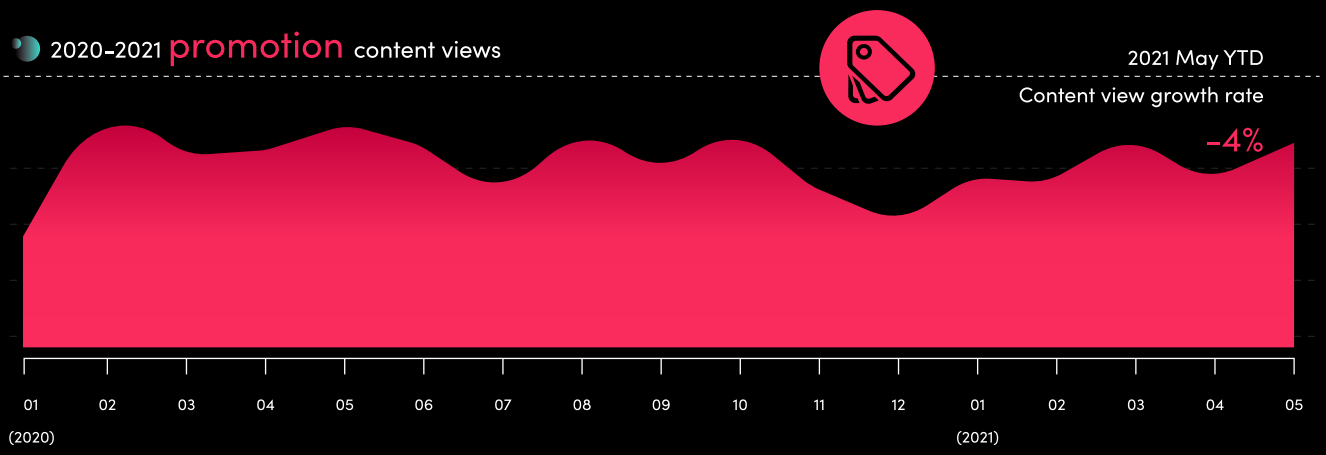
L'Oréal Revitalift Face Cream

- Innovative pump
- Brightening
- Lightweight
- Pro-Xylane

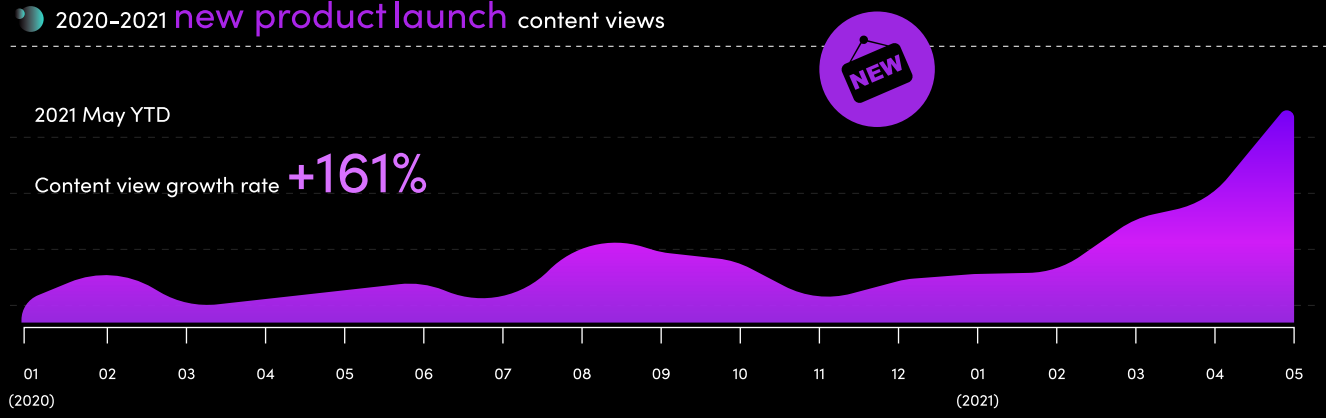
Data source: Engine, 2021Q1

Not only are new product content highly popular, content featuring special occasion-based giftsets and co-branded products attracted much consumer interests. Meanwhile, there is a stagnation of contents that purely focus on promotions like discounts, further indicating consumers are growing tiresome of price-centric communications and are instead on the lookout for more authentic and experience-driven contents.

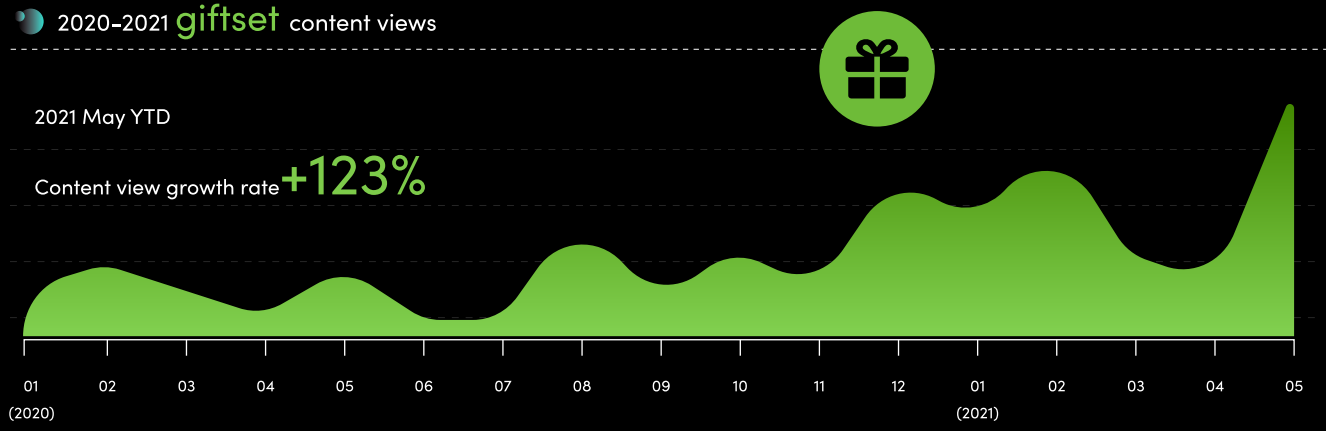
2020-2021 promotion content views



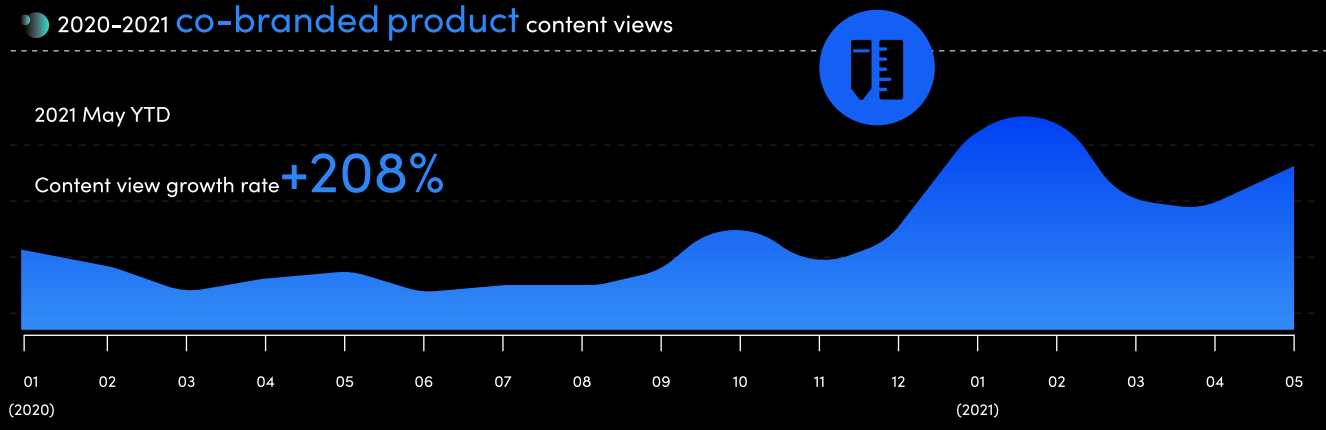
2020-2021 new product launch content views



2020-2021 giftset content views



2020-2021 co-branded product content views



Data source: Engine, 2020.1-2021.5

GROWTH

02

Evolving Demands

"Developing new usage occasions and addressing consumers' unmet needs"

01. Overall skincare demands upgrade, while makeup demands become increasingly diversified

02. Consumer interest converges to high-efficacy and specialized products that reflects women's unrelenting pursuit of beauty

Overall skincare demands upgrade, while makeup demands become increasingly diversified

Mask, essence, and toner are the biggest sales segments in the skincare market. In 2020, essence went through an astonishing growth in demand while demand for the other two remained relatively stable.

The pandemic did not hinder the overall skincare market demand, and most segments recorded positive growth in 2020; most noticeably, high-efficacy regimens are significantly outperforming the others. In addition to essence, eye cream is the new popular choice, recording a +10% growth. Furthermore, there is an overall upgrade in the demand for face cream products featuring specialized ingredients and/or in a more niche "essence-infused" format.

Value Performance by Segment

Lipstick and foundation are the two biggest segments in the makeup market, however, they moved in two diifferent directions under the impact of the pandemic.

As protective mask-wearing becomes a new norm in daily life, consumer preference for makeup products have become more refined. Consumers are more drawn to lightweight foundation and long-lasting power products. At the same time, they have also grown to rely on eye shadows as a way of expressing their individuality with eye makeup. These segments went through an explosive growth and offers new opportunities for brands to innovate and turn the tides.

Lipstick, on the other hand, have suffered a sharp decline as many consumers dropped lip makeup from their daily beauty routine. Nevertheless, there are some affordable lip products successfully attracting young consumers' attention with their price competitiveness, unique color schemes, strong consumer engagement and digital marketing activities.

Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Consumer interest converges to high-efficacy and specialized products that reflects women's unrelenting pursuit of beauty

Brightening and acne treatment continue to be hot topics, while anti-aging and repair segments are rapidly gaining more share of voice

According to Douyin data on beauty, brightening, acne treatment and hydration were the benefits consumers sought after the most in 2020. Meanwhile, anti-aging and repair benefits tripled in views and gained a strong momentum in 2020 to reflect a rapid growth in related consumer needs.

Furthermore, brands with strong performance focused largely on the abovementioned core demands. Olay primarily focused on driving brightening products, and La Roche-Posay on acne treatment products. Some brands like SkinCeuticals and Winona rode the emerging trend of anti-aging and sensitive skin repair. These examples demonstrate the importance of anchoring a brand portfolio around key consumer demands in order to drive growth.

Core segment–2020 top 3 popular beauty needs

Trending segment–2020 top 3 trending beauty needs

	2020 view growth	Related brands
Acne Treatment	+1238%	LA ROCHE-POSAY
Brightening	+493%	OLAY
Hydration	+1300%	KANS

	2020 view growth	Related brands
Anti-aging	+10779%	SKIN CEUTICALS
Sensitive Skin	+502%	WINONA
Sun protection	+420%	ANESSA

Data source: Ocean Insights, 2020

Consumers are looking to try out innovative and novelty ingredients

There are numerous innovative ingredients trending across different benefits in skincare, making it increasingly important for brands to develop their product portfolio to incorporate innovative ingredients that are closely associated with product efficacy.

Ocean Insights analysis shows that hydration and brightening-related ingredients such as hyaluronic acid, amino acids, and vitamin C are among the most frequently mentioned on Douyin. As consumers become more knowledgeable about product efficacy, anti-aging and repair-related ingredients like retinol and bifida ferment lysate are enjoying explosive growth as well. With the growing interest in product ingredients, beauty brands need to incorporate the right ingredients in their product portfolio to improve their product quality and gain market traction.

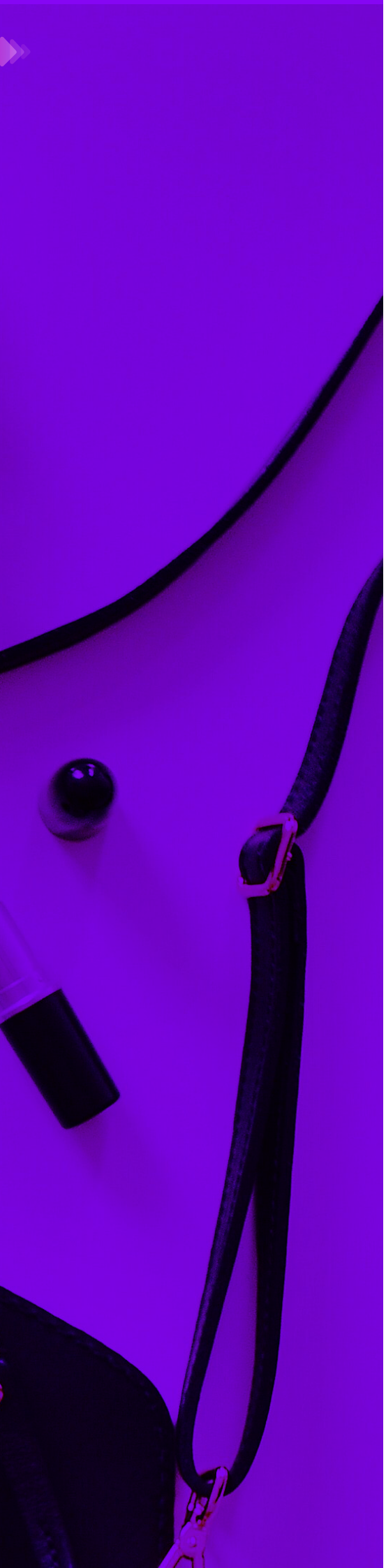
2020 Top 10 ingredients featured in Douyin beauty contents

2020 Top 10 fastest growing ingredients featured in Douyin beauty contents

Data source: Ocean Insights, 2020

ACCELERATION

03



Product Strategy

> "While bestsellers can be an anchor for brands, new product launches are the key to breakthroughs in growth"

01. Bestsellers provide stable support in brand performance, but they need to be regularly upgraded

02. New products will help excite and engage with consumers

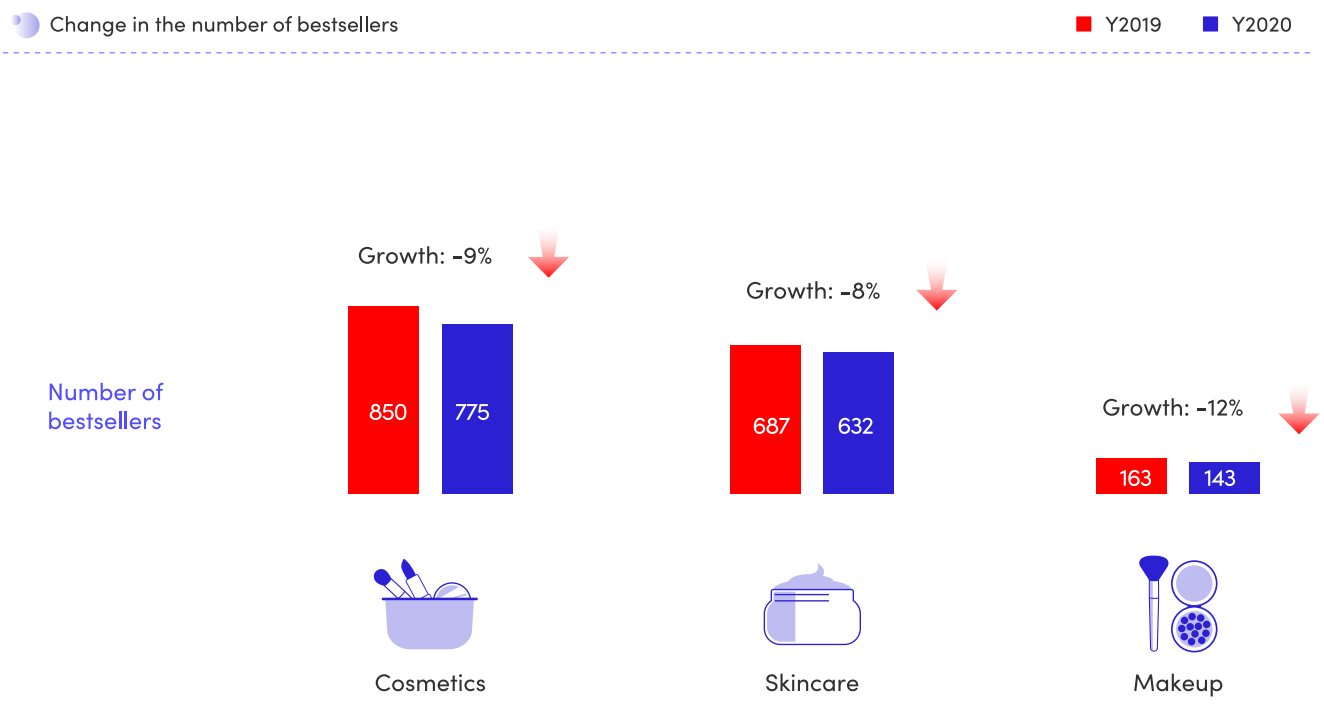
Bestsellers provide stable support in brand performance, but they need to be regularly upgraded

BESTSELLERS

It is becoming increasingly difficult to create bestsellers, but their influence is here to stay

Between 2019-2020, the number of bestsellers decreased from 850 to 775 across both the skincare and makeup markets. Some of the previously popular products fell out of consumers' favor as competition became more fierce.

Although the number of bestsellers decreased, the remaining ones maintained their influence at 25% in market share; this indicates that each bestseller made a greater contribution to the market than before. A competitive bestseller can exponentially improve a brand's chance in securing their footing in the market.



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

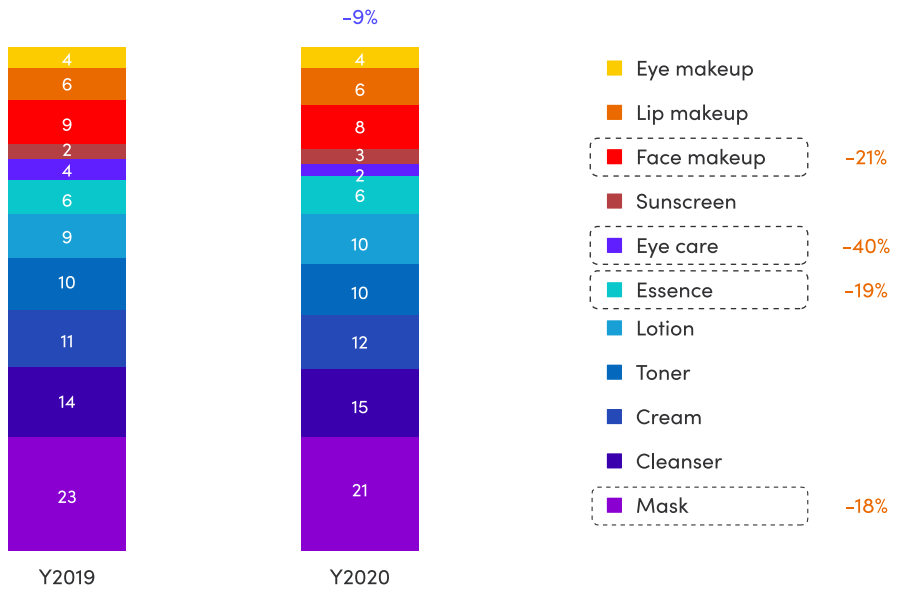
Bestseller positioning: Standard segments are more resilient to risks, while trending segments offer incremental growth opportunities

A Potential for Bestsellers: TA size of the segment determines the initial potential, and advance segments have higher barrier for a product to become a bestseller.

Masks, cleansers and toners each accounted for more than 10% of bestsellers in 2020. They are considered daily necessities for most people, allowing a product to get noticed and become a bestseller more easily. While the absolute number of cleanser and toner bestsellers remained stable in 2020, mask bestsellers drastically decreased as related product import slowed down.

There was also a noticeable decrease in the number of essence, eye cream, and makeup bestsellers. Consumer needs and expectation for these products are more complex, making the cost of trial and error in developing a bestseller much higher.

Share and Growth of the Number of Bestsellers by Segment



B Power of Bestsellers: Basic segments are more strongly driven by bestsellers, while essence bestsellers, though difficult to develop, are expanding their segment influence

Entry-level beauty segments (products consumers are most likely buy as a first-time purchase) like toners and lip makeup are more heavily driven by bestsellers; ROI of developing bestsellers in these segments is very impressive.

In the previous section, we noted that the absolute number of bestsellers significantly decreased in 2020 but their contribution was growing. This points to consumers paying closer attention to "what's hot" even when making purchases in advanced segments, thus making the development of bestsellers more appealing for brands with sufficient resources.

Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Share of Bestsellers in Each Segment

indicate share of bestsellers increased versus 2019

Y2020

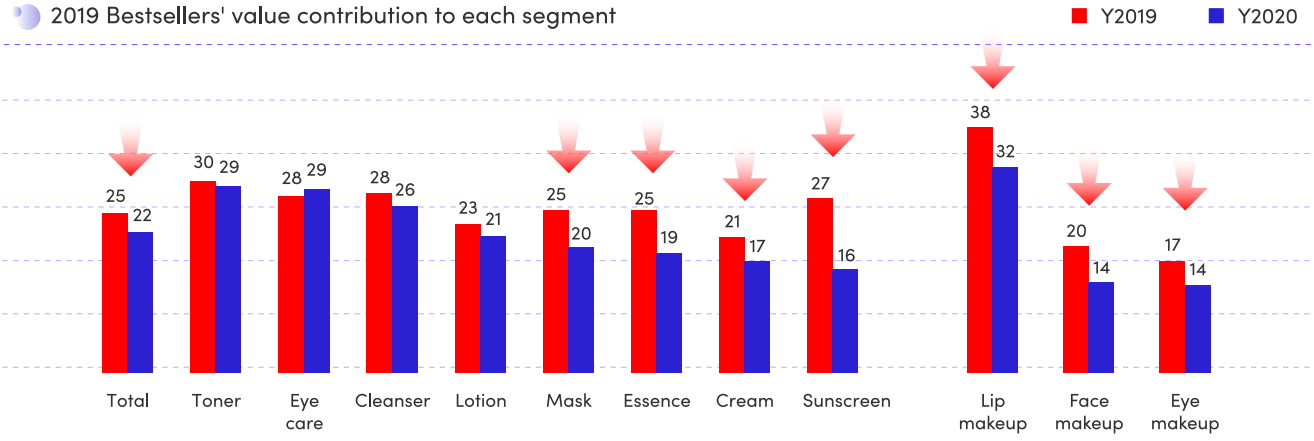
Skincare				Makeup	
Toner	31%	Sunscreen	26%	Lip makeup	37%
Cleanser	28%	Lotion	22%	Face makeup	20%
Eye care	28%	Mask	22%	Eye makeup	18%
Essence	27%	Cream	21%		

C Survival of Bestsellers: Are the bestsellers from last year still popular? Upgrades are necessary for the survival of bestsellers

Nothing last forever. Bestsellers have to fight to maintain their market leadership. Bestsellers from 2019 contributed 25% of the market share, while the same products' combined share decreased to 22% in 2020. This trend was true across almost all segments, especially more prominently in essence, mask, and color makeup. In segments with a relatively lower barrier to entry like color makeup and mask, there are plethora of new product launches that can easily distract consumers. In the essence segment, consumer needs and expectations are becoming more complex to require product upgrades in both effects and ingredients. More effort is needed to continuously evolve and stay current with the latest trends in order for a bestseller to maintain its leadership.

Toner and facial cleanser bestsellers maintained somewhat more stable sales in 2020. As they are must-have, entry-level products, consumers are more likely to have clear and less-wavering preferences for the products they want and like. Once the bestsellers in these segments claim their throne, they are more likely to be resilient to external risks, providing brands with more security.

2019 Bestsellers' value contribution to each segment



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

New products will help excite and engage with consumers

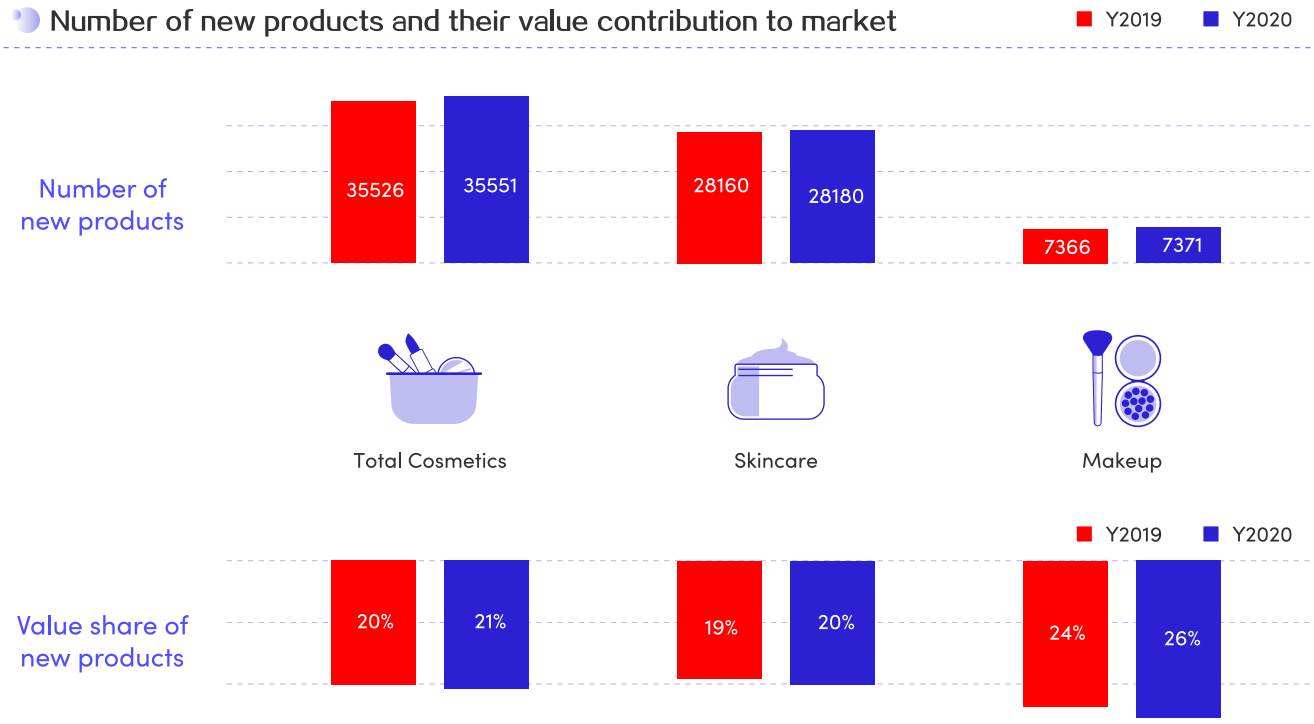
New product investments continue, and consumer enthusiasm for new products rises

35,526 new products were launched in the Mainland China cosmetics market in 2020, at roughly the same level as in the previous year (35,551 products). Even in the face of market slowdown, manufacturers' R&D drive remained strong.

Consumers' spending devoted to these new products saw a marginal increase from 20% in 2019 to 21% in 2020. They responded particularly more enthusiastically to new makeup products, which accounted for 26% of the total market value in 2020.

There is a joy of browsing and discovery that consumers seek in the cosmetics market, especially in makeup, and brands need to make a continuous R&D investment to drive consumer excitement and remain current and relevant in their mind.

Number of new products and their value contribution to market

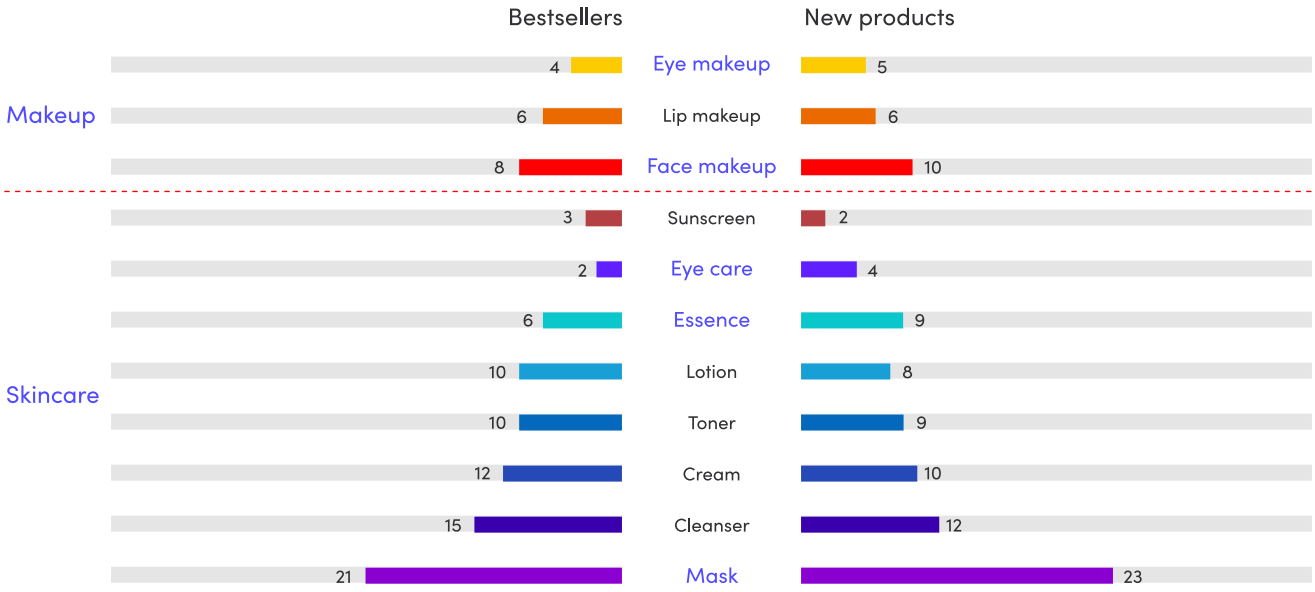


Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Target high-efficacy and/or specialized segments for new product development.

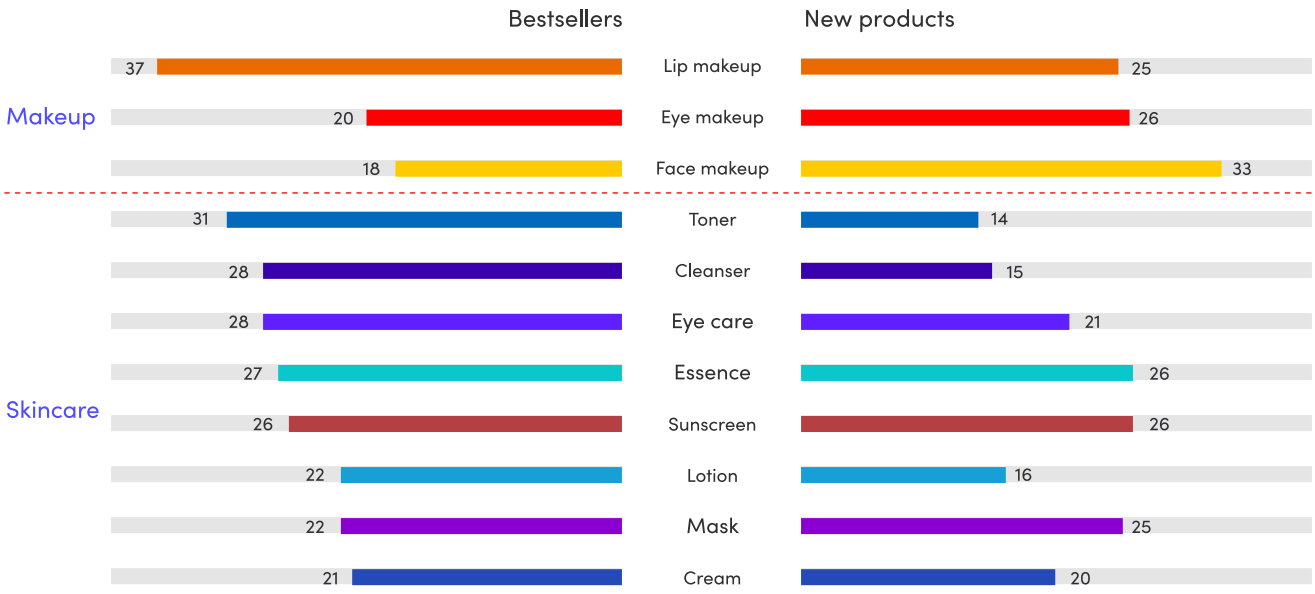
There are two types of segments with the most potential for successful new product development. On the one hand, mask and makeup segments are more fragmented, making consumers more accepting of new products; on the other hand, demand for advanced segments like essence and eye cream are becoming more sophisticated, with many consumers waiting for the next "big breakthrough".

Share of the number of Bestsellers and New products by segments



Brands can also differentiate their new product and the bestseller positioning by segment. Toner, facial cleanser, eye cream, and lipstick are more strongly driven by bestsellers, with consumers more inclined to rely on word-of-mouth sharing. Meanwhile, consumers' willingness to try something new tends to be greater in the makeup, mask, and sunscreen segments.

Value Share of Bestsellers vs New Products in Each Segment



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

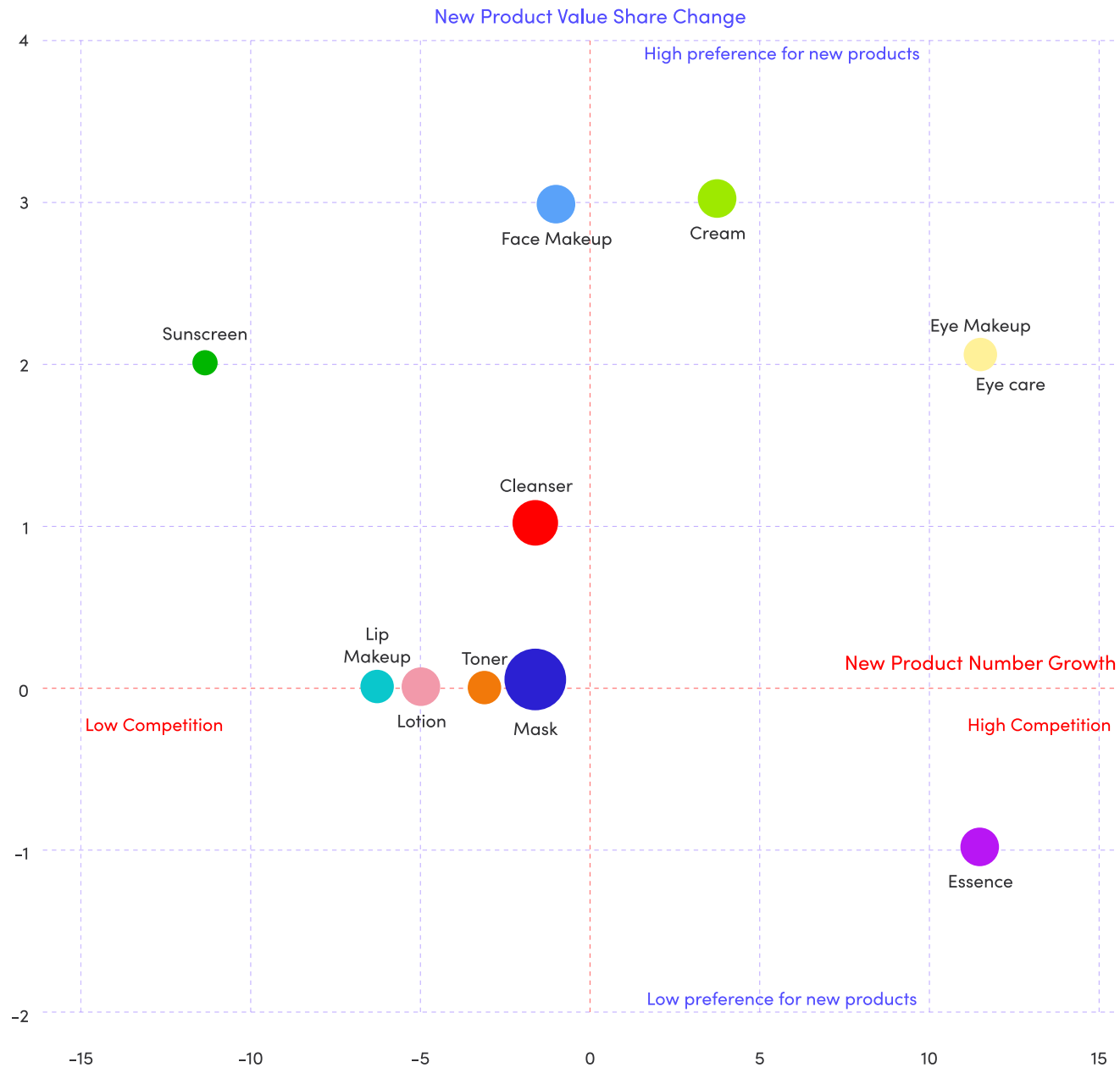
Evaluate competition density and ROI to drive new product strategies

The absolute number and value contribution of new products to each segment can be used as a barometer for competition density. And they are also the key indicators for changes in consumer preference and acceptance of new products.

Acceptance of new products in most segments, including face cream, eye cream, and eye shadow, remained relatively stable or even increased last year. There was a significant increase in the number of new products launched in the essence segment, but their sales contribution decreased, to show it is very difficult for a new product to become successful, or even survive. The sunscreen segment stands out with a relatively lower competition and a growing consumer preference and sales volume.

Brands need to decide new product launches based on these two factors – competition density and consumers' appetite for new products – in order to increase the chance of success.

Number and Value Share Change of New Products in Each Segment



*Bubble size refers to the number of new products.

Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

COMPETITION

04

Portfolio Optimization

"Targeted diversification"

01. Multinational and local brands held similar shares, with local newcomers achieving impressive growth

02. Multinational bestsellers tighten their grip while local brands' innovation is in full swing

03. Strong correlation between brand performance, e-commerce sales, and content quality

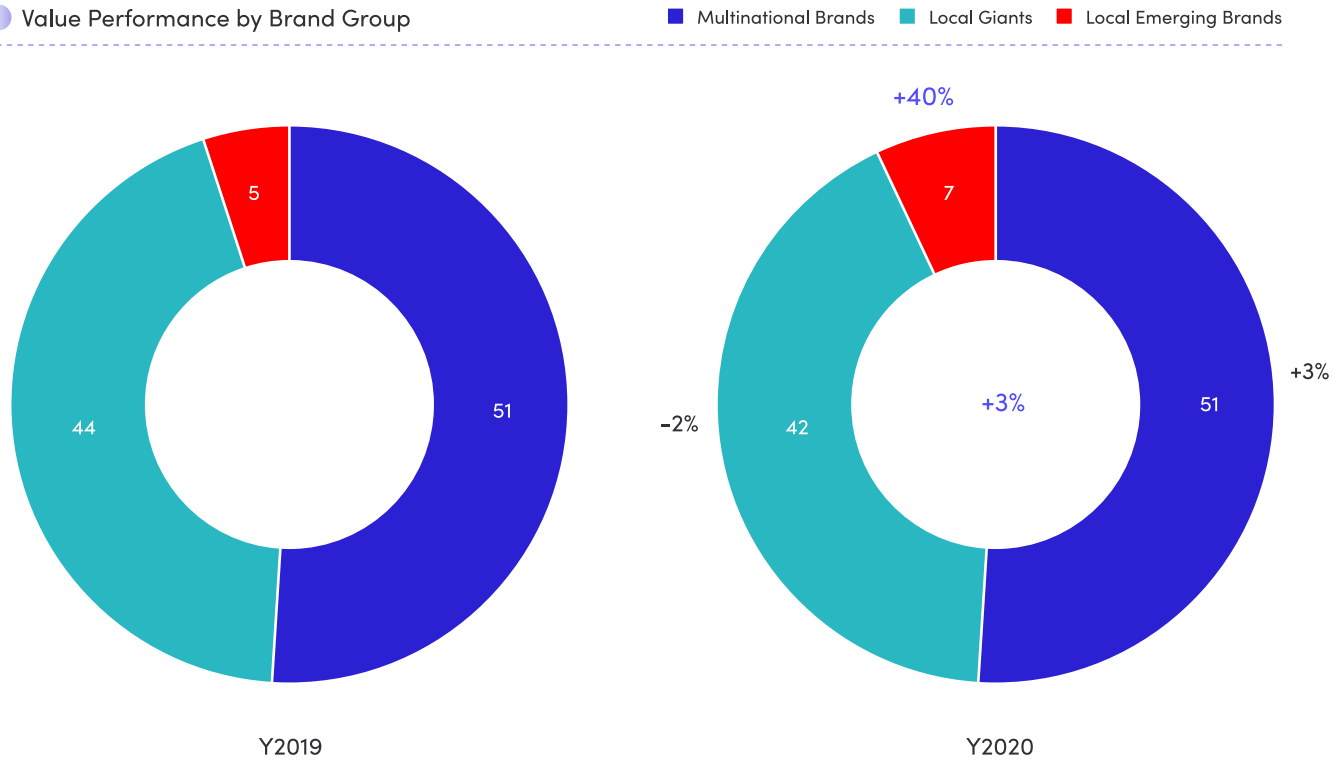
04. Competition landscape

Multinational and local brands held similar shares, with local newcomers achieving impressive growth

In today's Chinese cosmetics market, multinational and local brands account for similar market shares and fiercely compete against each other.

Consumers still hold a remarkable preference for multinational brands. While multinational brands were severely impacted by a halt in overseas travel, domestic demand for these brands continued to grow at +3%, allowing them to maintain a combined market share of 51%. Among local brands, existing giants showed stagnated performance in 2020, but emerging brands from the latest 2 years flourished and recorded an impressive +40% growth.

Value Performance by Brand Group



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

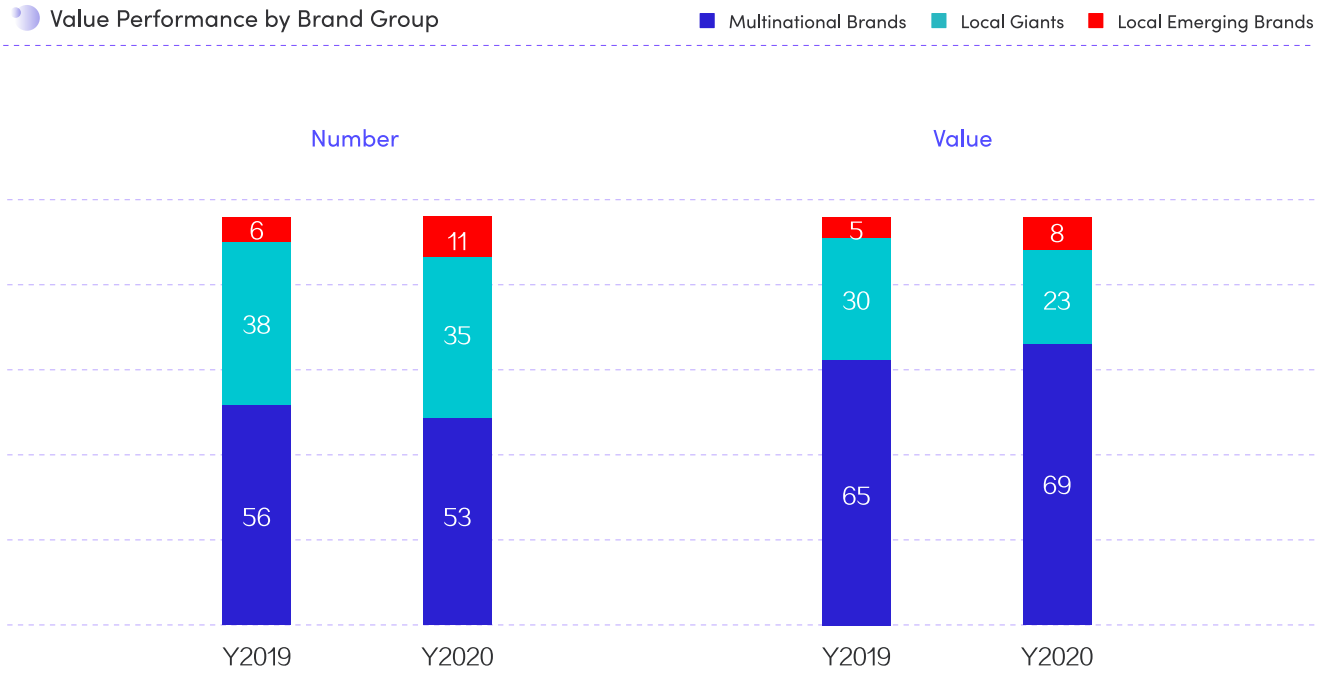
Multinational bestsellers tighten their grip while local brands' innovation is in full swing

BESTSELLERS

Bestseller performance: Battle between multinational brands and local newcomers become fiercer

Multinational brands are very competitive in building bestsellers, contributing 53% of the bestsellers in absolute number. Meanwhile, there's a diverging trend for local brands, while local giants' presence significantly eroded over the years, many local emerging brands are successfully in launching bestsellers to claim leadership in a number of segments.

Value Performance by Brand Group



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

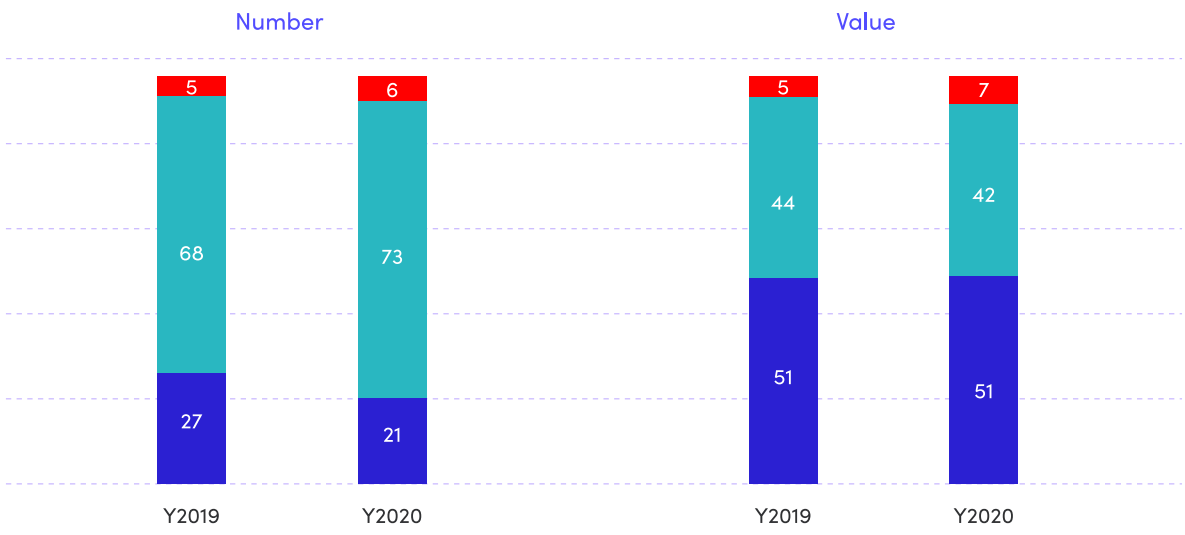
NEW PRODUCTS

New product performance: Local brands gain momentum, and multinational brands become more targeted in their new product drive

R&D remained active even under the pressure of the pandemic in 2020. Multinational brands launched less new products in 2020, and only 21% of all the new products were from multinational brands, which is a marked decline from 27% in the previous year. In contrast, domestic brands, especially the mature giants, were more active in product innovation to offset the external impacts and fuel brand transformation.

Having new products launched does not, however, guarantee financial success. Despite launching less new products, multinational brands' overall new product performance remained stable; their new product drive became more focused and efficient. Successful new product launches require strategic positioning that is in line with latest trends and existing brand equity.

Number and Value Share within New Products



Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

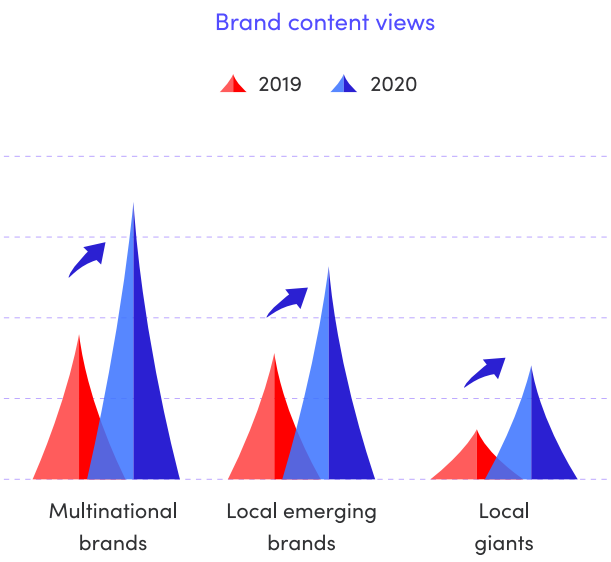
Strong correlation between brand performance, e-commerce sales, and content quality

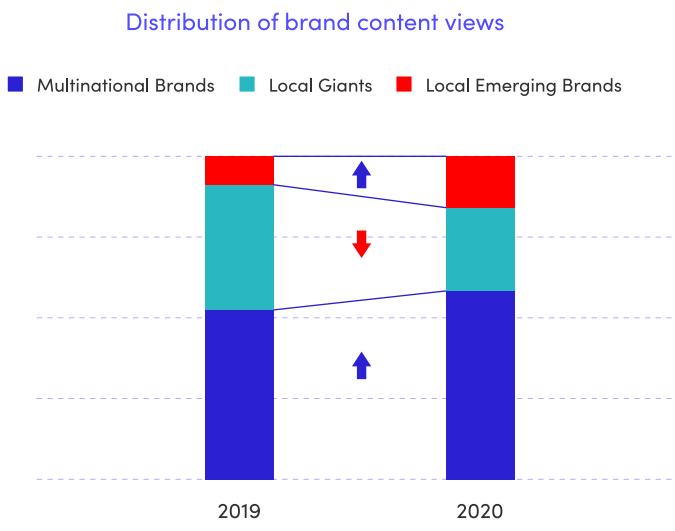
Having the right voice is the key to success, content optimization is crucial

The growth in e-commerce sales is strongly correlated to the increase in the brand's voice.

Consumers are actively searching for content online to learn about different brands that will help them make a better purchase decision. As more brands are joining the bandwagon of content marketing, competition to capturing consumer attention through high-quality contents is becoming fiercer than ever.

Share of voice by brand group





Data Source：Ocean Insights, 2020

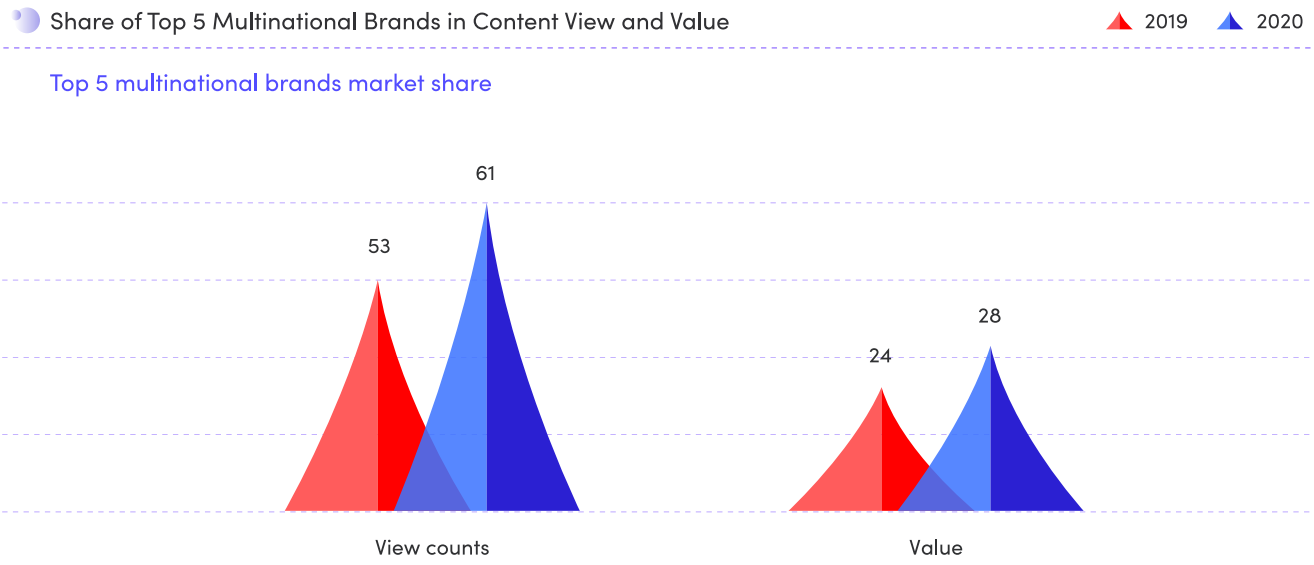
Multinational brands drive market share, e-commerce performance, and content share

During the global downturn, multinational brands shifted their investment to more resilient China market, and their efforts strongly affected the share of voice and contents published. Multinational brands doubled their content view counts on Douyin in 2020, significantly outperforming competitors.

Growth in their online share of voice helped further drum up their e-commerce business, as reflected by the strong share in both content view counts and e-commerce sales.

This growth was led primarily by market leaders who took on the role of consumer education and communication through high-quality contents. Share of view counts by the Top 5 multinational brands on Douyin increased from 53% to 61% in 2020. During the same time, their market share in the total beauty market also grew from 24% to 28%.

Share of Top 5 Multinational Brands in Content View and Value



Local giants seek brand transformation

Multinational brands were not the only ones dialing up in content production, but local giants also increased their investment. Traditionally, local big brands were relatively weaker in content marketing, but they are quickly catching up, doubling the view count share on Douyin last year. It is evident that their efforts helped boost their +19% e-commerce business growth despite their sluggish performance overall.

Steady expansion of local emerging brands

Local emerging brands are creative and ahead of competitors in terms of content communication. Having developed their brand equity through content marketing in the digital realm, these local newcomers continue to create more innovative content to attract consumer interest and support growth.

Data Source：Kantar Worldpanel Beauty Panel，Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Competition landscape

CONTENT

Annual Brand Ranking

Multinational giants such as Lancome, Estee Lauder, and Dior are among the top ranked on Douyin's 2020 annual beauty brands. At the same time, local newcomers such as Florasis and Perfect Diary are rising stars, ranking in the top 3, shoulder to shoulder with multinational big names.

Annual brand ranking in Beauty industry

Brand	Brand Index
01 Lancome	1069
02 Florasis	1040
03 Perfect Diary	1032
04 Estee Lauder	1014
05 Dior	991
06 L'Oreal	986
07 Colorkey	949
08 YSL	945
09 Armani	918
10 OLAY	905

Data Source: Ocean Insights, Douyin's brand ranking evaluates both the native content and commercial content of a brand on the platform, and measures a combination of metrics such as video view and engagement level, 2020

SEARCH

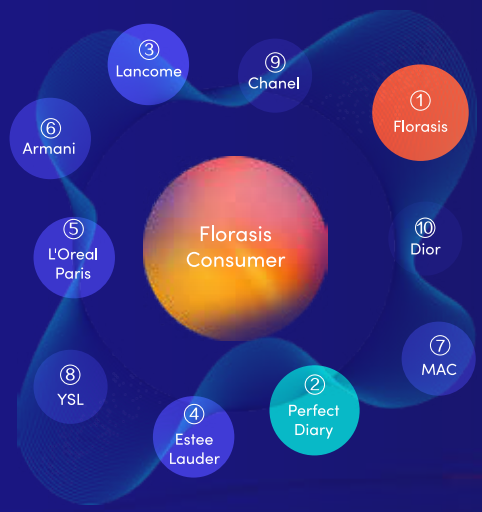
Brand search flow

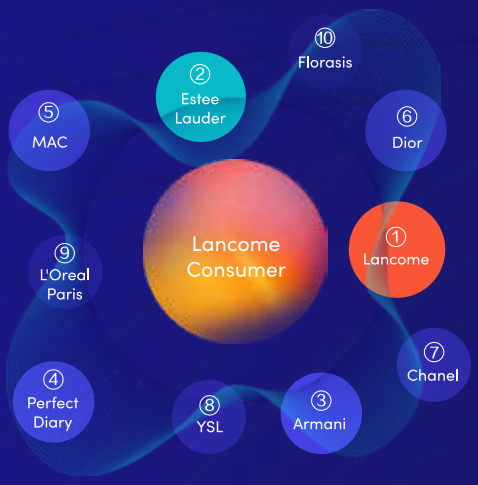
Brand users' search pattern reflect what other brands they are interested.

Overall distribution of searches can accurately reflect consumers' purchase intent for specific brands. In case of Perfect Diary, Florasis, L'Oreal Paris, and Lancome, the first searched by the brand consumer is for the brand itself, and this indicates that the brand power is relatively stable. However, some brands need to increase their digital presence by further analyzing their followers' search intent and product needs to better convert them into loyal users.

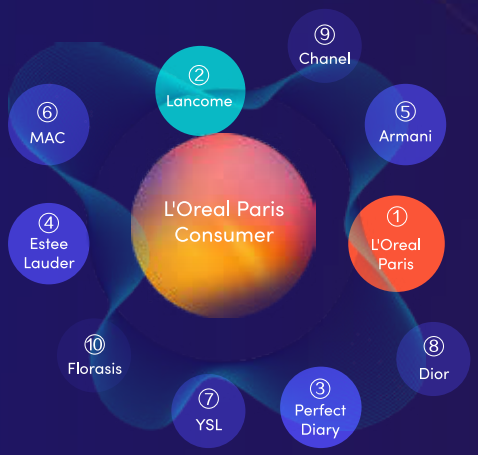
Brand consumer search distribution

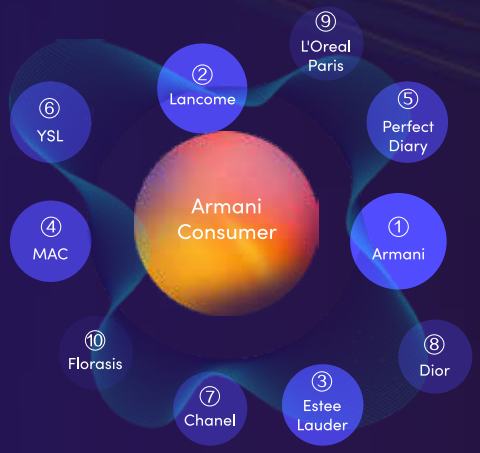
1–10 represents top searches made by specific brand consumers



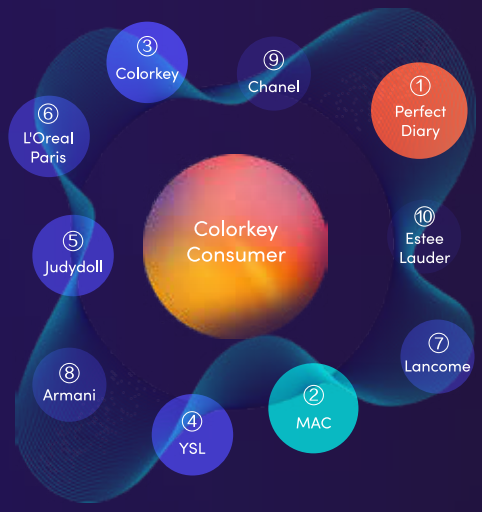


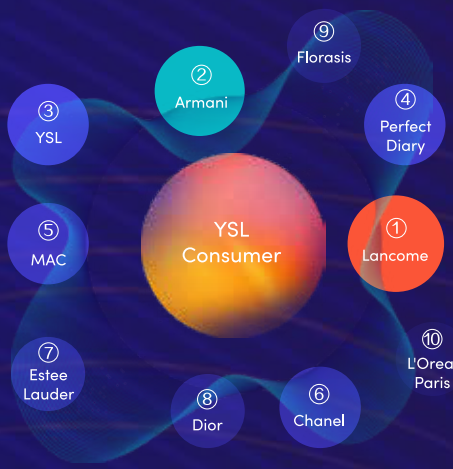
Data Source: Ocean Insights, search behavior from January to May in 2021

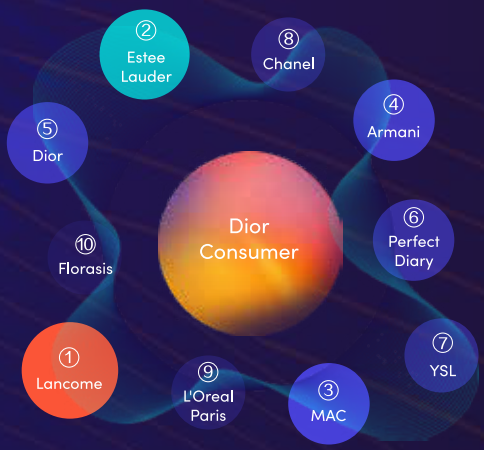

L'Oreal Paris Consumer
① L'Oreal Paris
② Lancome
③ Perfect Diary
④ Estee Lauder
⑤ Armani
⑥ MAC
⑦ YSL
⑧ Dior
⑨ Chanel
⑩ Florasis


Armani Consumer
① Armani
② Lancome
③ Estee Lauder
④ MAC
⑤ Perfect Diary
⑥ YSL
⑦ Chanel
⑧ Dior
⑨ L'Oreal Paris
⑩ Florasis

Olay Consumer
① L'Oreal Paris
② Lancome
③ Estee Lauder
④ Perfect Diary
⑤ Olay
⑥ MAC
⑦ Armani
⑧ YSL
⑨ Dior
⑩ Chanel


Colorkey Consumer
① Perfect Diary
② MAC
③ Colorkey
④ YSL
⑤ Judydoll
⑥ L'Oreal Paris
⑦ Lancome
⑧ Armani
⑨ Chanel
⑩ Estee Lauder


YSL Consumer
① Lancome
② Armani
③ YSL
④ Perfect Diary
⑤ MAC
⑥ Chanel
⑦ Estee Lauder
⑧ Dior
⑨ Florasis
⑩ L'Oreal Paris


Dior Consumer
① Lancome
② Estee Lauder
③ MAC
④ Armani
⑤ Dior
⑥ Perfect Diary
⑦ YSL
⑧ Chanel
⑨ L'Oreal Paris
⑩ Florasis

TARGETING

05

Consumer Insights

"Identify sizable and expanding target audience groups, and add precision through segmentation"

01. Young women are the main market contributors, and lower-tier city consumers are proven more resilient to market risks

02. Young women are leading new trends; lower-tier consumers prefer basic products but are also quickly embracing new trends

03. Beauty lover profile

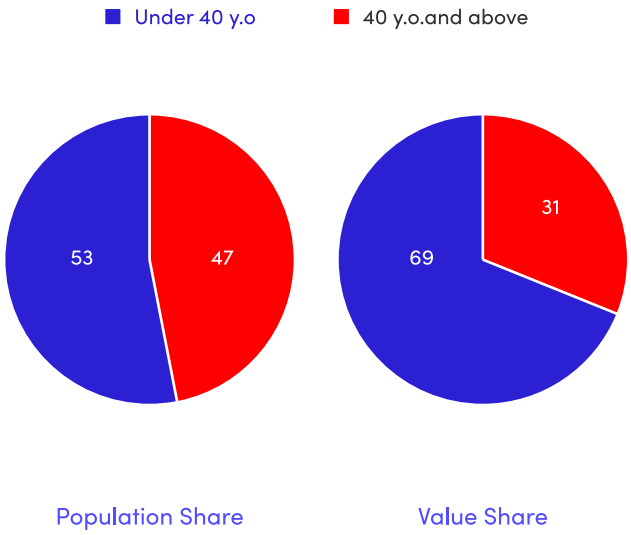
04. Four Key User Segments

05. Consumer segmentation evolves, and brands need incorporate the latest and most relevant consumer trends to the communication and innovation plans.

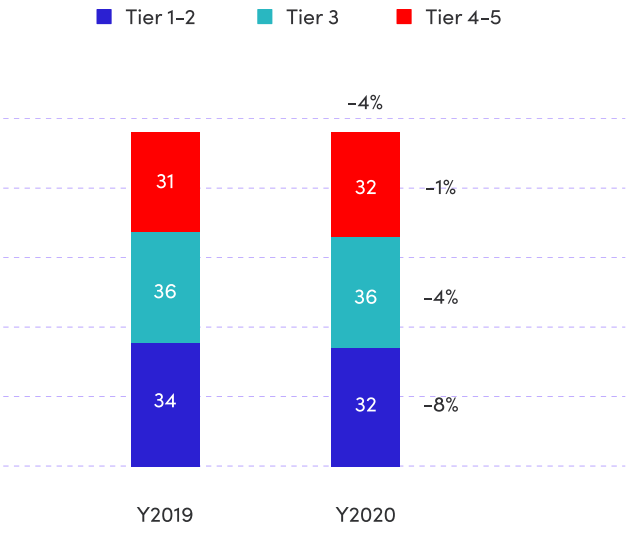
Young women are the main market contributors, lower-tier city consumers are proven more resilient to market risks

To nobody's surprise, women are the key contributors to the cosmetics market; young women in particular are the driving force in spending. In 2020, young female spent more than ¥1,000 per capita on cosmetics, and they accounted for nearly 70% of the total market, far exceeding their population share.

Population and Value Share by Age
(Female Consumers = 100%)



Value share by city tier



Meanwhile, consumers in lower tier cities proved more resilient to external risks. Under the impact of the pandemic, tier 4 and 5 city markets were less severely impacted and they recovered more quickly.

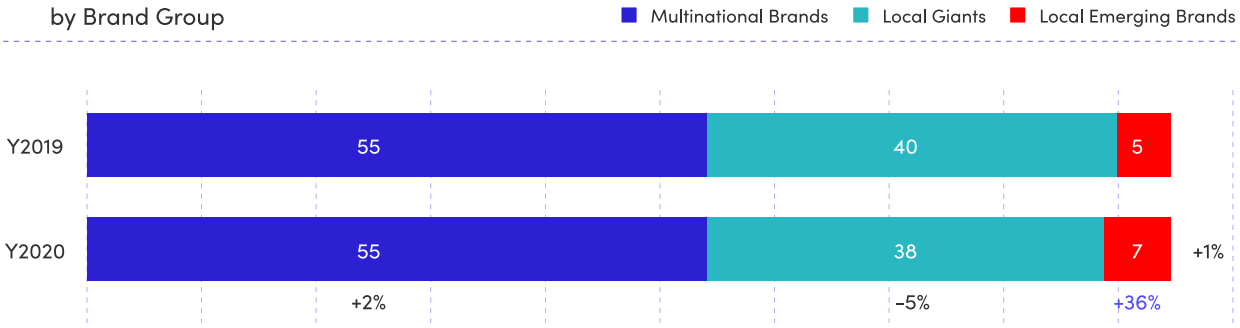
Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Young women are leading new trends; lower-tier consumers prefer basic products but are also quickly embracing new trends

Young women tend to use many beauty products on a daily basis, and they actively look for and embrace new products, thereby driving the latest trends. They are the main consumers of high-efficacy product segments such as essence and eye cream. They also have a strong preference in advanced functions like anti-aging and repair. They are also sensitive to emerging needs inspired by new occasions, and tend to invest more in niched functions such as balancing and anti-sensitivity.

Young women have a clear preference for multinational brands (accounting for 55% of their total spending), but they are also attracted to local emerging brands leading the latest trends. Local giants are less competitive among this consumer segment, and they need to actively transform and reposition themselves to better reach this TA.

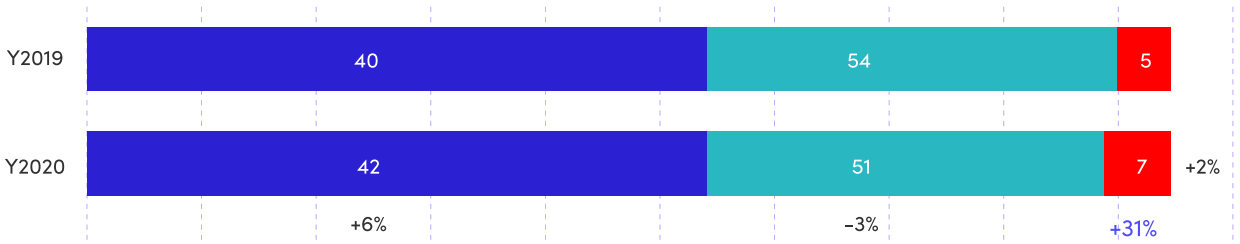
Young (under 40 y.o.) Female Value Performance by Brand Group



Consumers in tier 4 and 5 cities are actively exploring for the products that meet their basic needs. They still have a strong preference for basic segments such as toner, lotion, and cream, but they are also beginning to expand their spending on advanced segments and anti-aging products.

These consumers show more enthusiasm for local brands; local giants in particular account for more than half of their cosmetics market spending. Nevertheless, they are also catching up to the latest trends led by multinational brands and local emerging brands. Local giants needs to better leverage their stronghold in lower-tier cities and find a breakthrough that will allow them to ride the latest trends.

Tier 4-5 City Consumer Value Performance by Brand Group



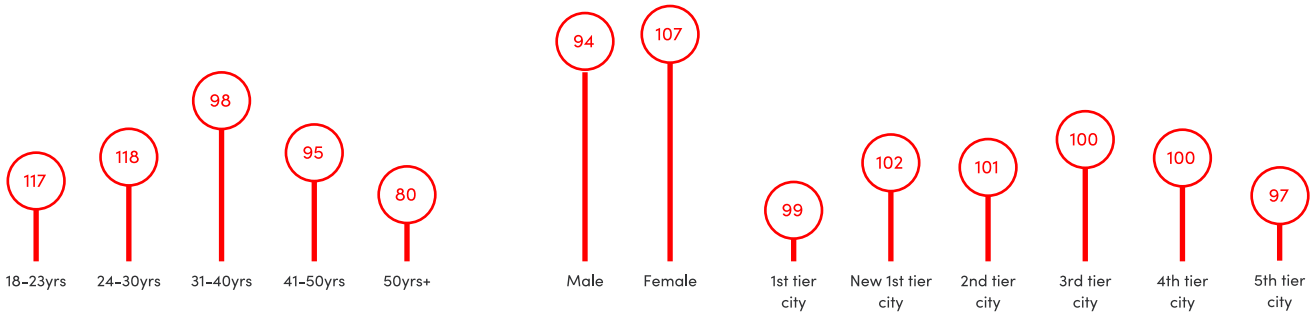
Data Source: Kantar Worldpanel Beauty Panel, Facial Skincare and Makeup, Y2020 vs Y2019. Makeup only covers female consumers.

Beauty lover profile

A wide variety of digital content is stimulating the target audiences' interest and consumption in the beauty market. In addition to creating targeted content, brands should also choose appropriate communication platform that will help increase the effectiveness of content delivery. For example, young consumers and people in lower-tier cities are more inclined to use Douyin. As such, new formats such as short-video ads and livestreams can quickly capture their attention. At the same time, Toutiao's demographics are also leaning towards younger audiences, allowing advertisers to tap into this TA by leveraging both platforms.

Douyin Beauty Users

Douyin Beauty User Distribution | Douyin Beauty User TGI

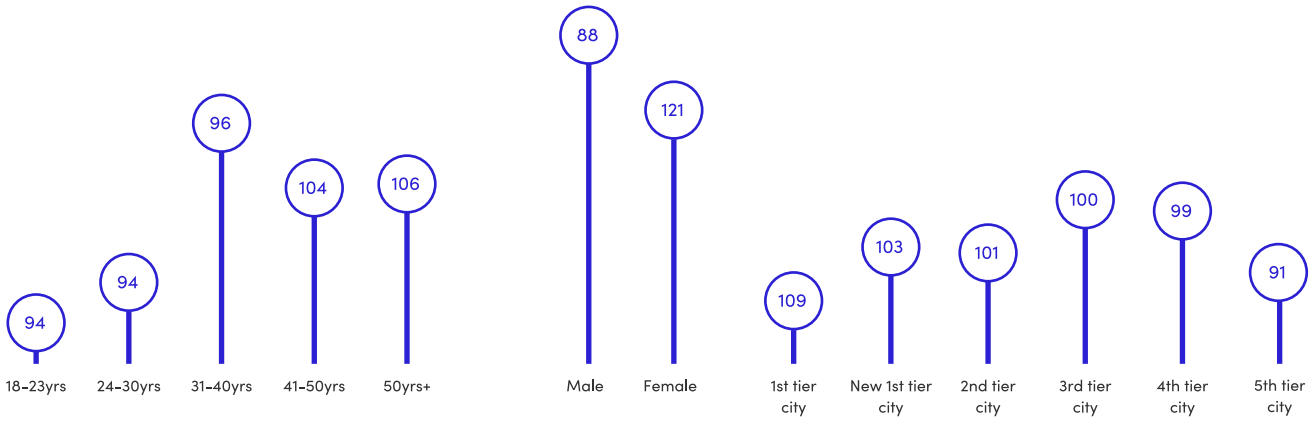


Toutiao Beauty Users

Toutiao Beauty User Distribution | Toutiao Beauty User TGI

Xigua Beauty Users

Xigua Beauty User Distribution | Xigua Beauty User TGI



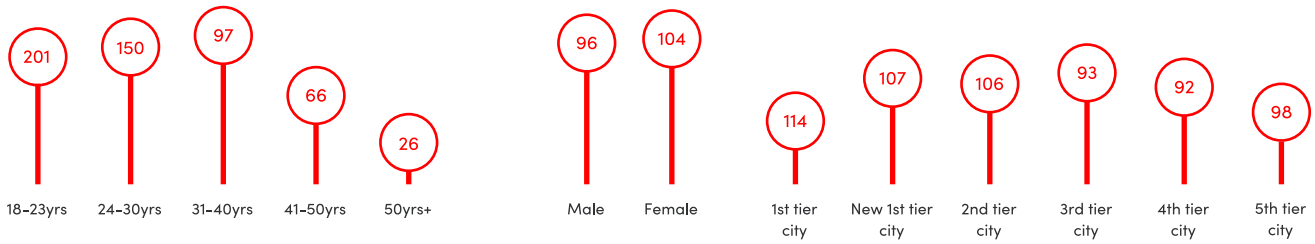
Data source：Ocean Insights, 2021Q2

Four Key User Segments

Ocean Insights analyzed the profile of four trending target audience segments in the beauty industry to help brands with their positioning and targeting. According to Douyin's beauty user data, the acne user segment leans towards younger demographics, with over 50% of the segment between 18-30 years old, and they are more likely to be from higher-tier cities. There is a relatively even gender distribution, which shows that acne is a common concern for both men and women alike. Anti-aging, brightening, and sensitive skin user segments are composed of more female. They are more likely to be sophisticated consumers with high demand for functionality. They are mainly born in the 80s or 90s, disproportionately driven by those between the ages 18 and 30. Brands need to pay close attention to these four trending user segments to better reach and appeal to the young beauty users.

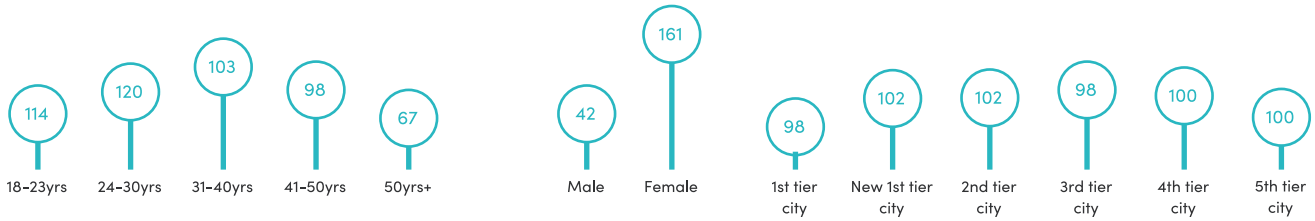
Douyin Acne Users

Douyin Acne User Distribution | Douyin Acne User TGI



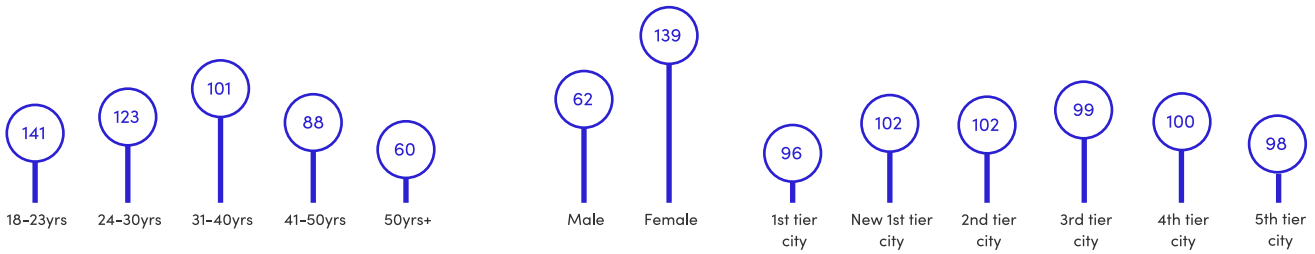
Douyin Anti-aging Users

Douyin Anti-aging User Distribution | Douyin Anti-aging User TGI



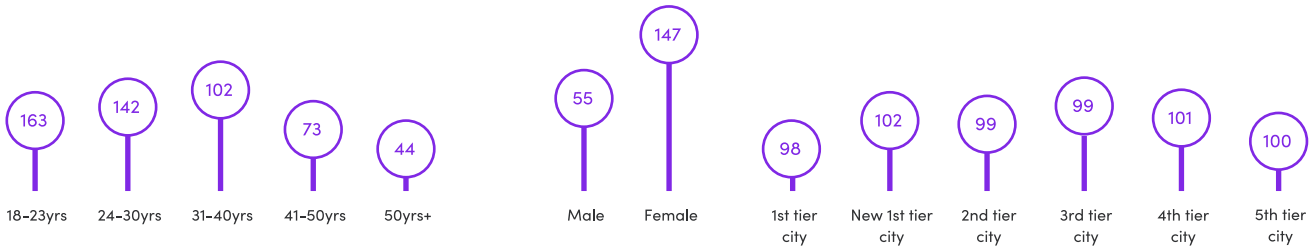
Douyin Brightening Users

Douyin Brightening User Distribution | Douyin Brightening User TGI



Douyin Sensitive skin Users

Douyin Sensitive skin User Distribution | Douyin Sensitive skin User TGI



Data source: Ocean Insights, 2021Q2

Consumer segmentation evolves, and brands need to incorporate the latest and most relevant consumer trends to the communication and innovation plans

While age and geographic breakdowns can provide a general guidance, consumer preference and purchase decisions are further affected by their personalities, lifestyle, and environment. This means that brands need to not only find a way to better attract their core audience groups – young women and consumers from lower-tier cities – but also continuously identify more specific segments within these groups that are relevant to the brand. Related learnings can be used to continuously guide their new product development and communication strategies.

Consumption of beauty contents on Douyin can be used to further segment the consumers. Douyin's beauty consumer groups can be broken into a few key segments; some of them are "Experts", users who proactively test different products and offer tutorials on beauty tips; "Night Owls", users who have urgent beauty needs such as dark circles that are related to their lifestyles; and "Students", users who are keen to explore and learn about all things new.

Also, there are groups that are quickly changing in their demand to reflect the latest market conditions. The pandemic has lead to a growing interest in repair and balancing functions, which then led to the rise of "Ingredient Follower", users who look at ingredients over anything else. Economic slowdown in 2020 also seemed to have made high-end buyers less relevant but gave rise to middle-class consumers.

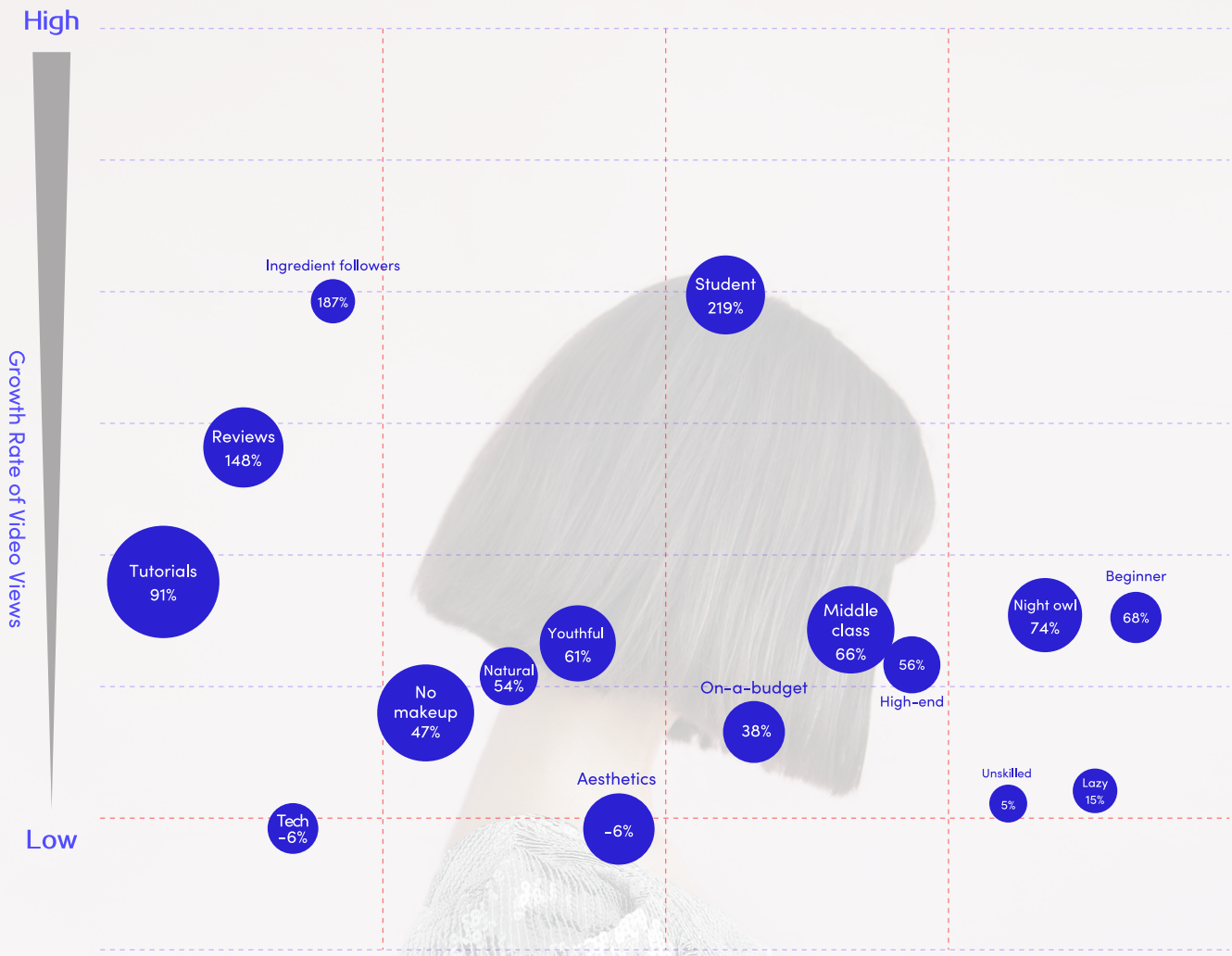
2019 Douyin beauty consumer segments

Size of bubble represents total views in 2019

Data source: Ocean Insights, In 2019-2020

2020 Douyin beauty consumer segments

Size of bubble represents total views in 2020



Once brands have identified the most relevant high-potential consumer groups, they need to evaluate these TA's spending power and evolving demands to adapt communication and portfolio development effectively.

For example, "Students" not only continued to be among the biggest content consumers but also are increasing their cosmetics spending above average in 2020. According to Kantar Worldpanel, their exceptional willingness to spend is reflective of their sophisticated product preference in favor of advanced segments such as essences, as well as niche and innovative segments like ampoules and lyophilized powders. Precision targeting using the most relevant messages to a brand's TA will undoubtedly enhance conversion

In conclusion, brands need to continously monitor and conduct deeper analysis of target audience groups in order to maintain relevance and win consumers.

Data source: Ocean Insights, In 2019-2020

BREAKTHROUGH

06

Marketing Solutions

"

360° brand building to drive sustainable growth

"

01. **Decoding 2020 marketing strategy: Simultaneous use of branding and performance advertising**

02. **Beauty industry marketing breakthrough in 2021: Drive multi-dimentional brand building and win the battle for mind space across the board**

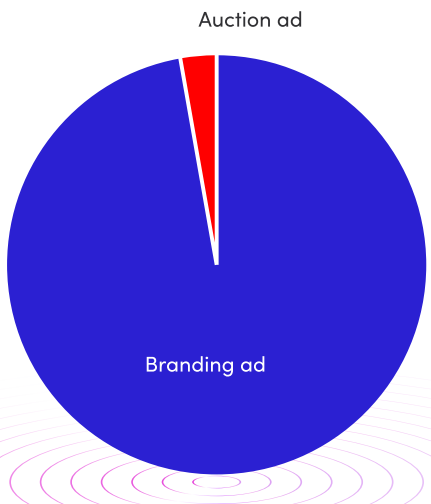
Decoding 2020 marketing strategy: Simultaneous use of branding and performance advertising

MULTINATIONAL BRANDS

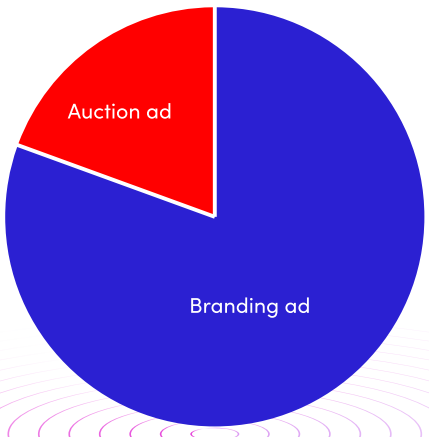
Multinational brand marketing: from traffic-driven players to multi-level content providers

In 2020, many multinational brands started to increase performance advertising instead of focusing solely on branding advertising that include Brand Takover and TopView. There is a significant increase in the share of performance advertising, and the mixed investment in both branding and performance advertising is likely to become a long-term strategy for more multinational brands.

Multinational beauty brand advertising distribution



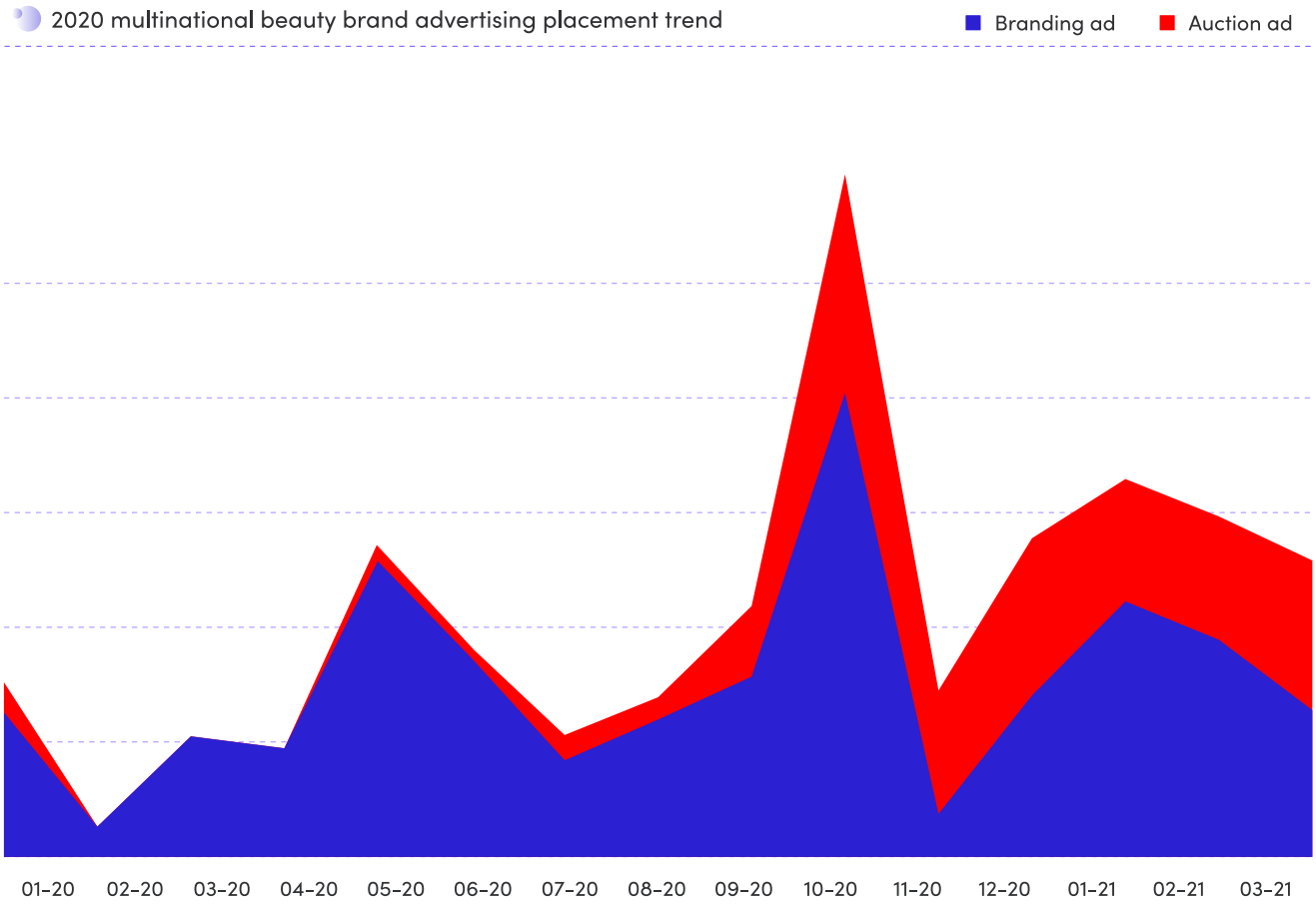
In 2019



In 2020

Data source: Ocean Insights, In 2019-2020

Monthly advertising trend shows that multinational brands are taking a more always-on approach rather than focusing their activation primarily on big promotion windows to continuously build a holistic brand image. They have also been undergoing marketing transformation; many multinational brands are tapping into new media and advertising formats to showcase their abundant contents of which the performance is carefully measured, and further refined to effectively increase their share of voice.



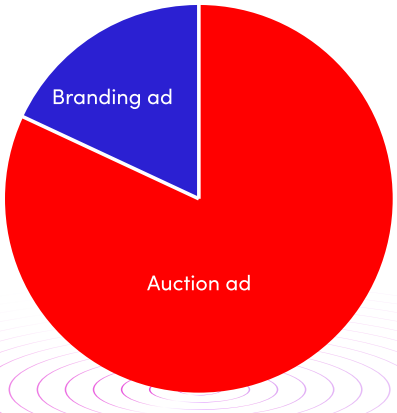
Data source: Ocean Insights, In 2019-2020

LOCAL BRANDS

Local brand marketing: from a simple bidder to a brand power developer

As the voice of multinational brands grow louder, local brands are faced with an urgency to transform to better build their brand. Unlike the trend among multinational brands, local brands show a heavier dependence on performance advertising, and their spending in both performance and branding advertising significantly increased in 2020. There is also a greater emphasis on branding communication than before, which indicates that local brands are starting to look beyond a short-term ROI to building "brand power."

Local beauty brand advertising distribution



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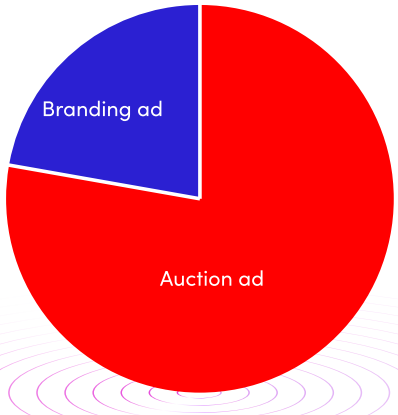
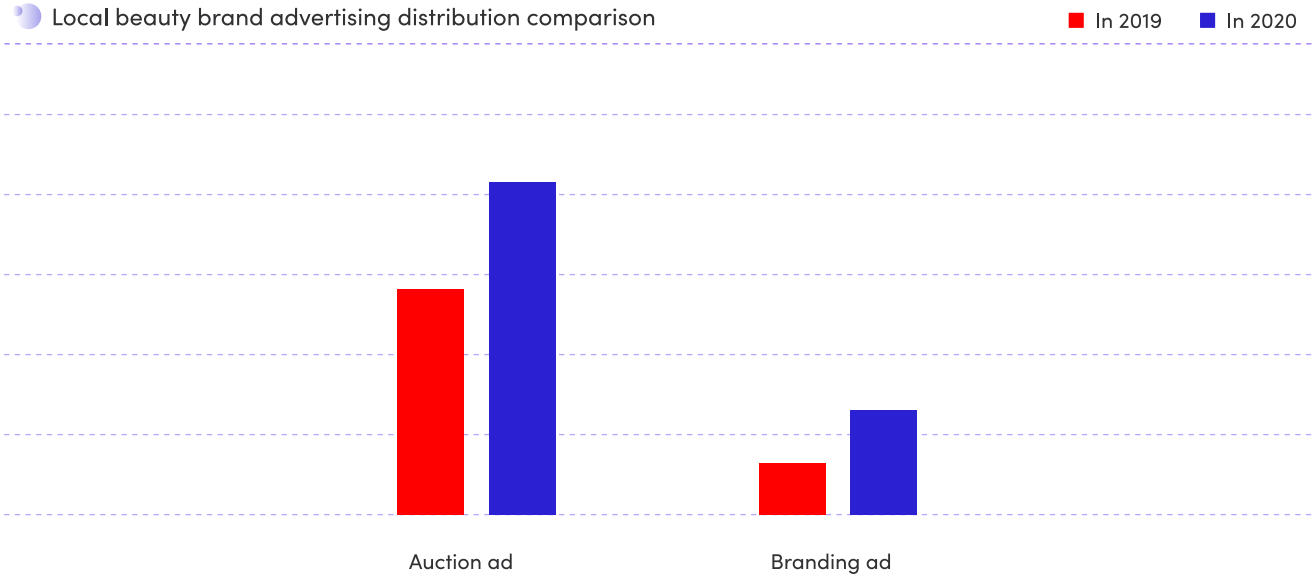


In 2020

Local beauty brand advertising distribution comparison



Local brands most commonly engage with different celebrities to refine their brand image, invite KOLs to better appeal to target consumer groups, and use hero SKUs to facilitate buyer recruitment.

Data source: Ocean Insights, In 2019-2020

Beauty industry marketing breakthrough in 2021: Drive multi-dimentional brand building and win the battle for mind space across the board

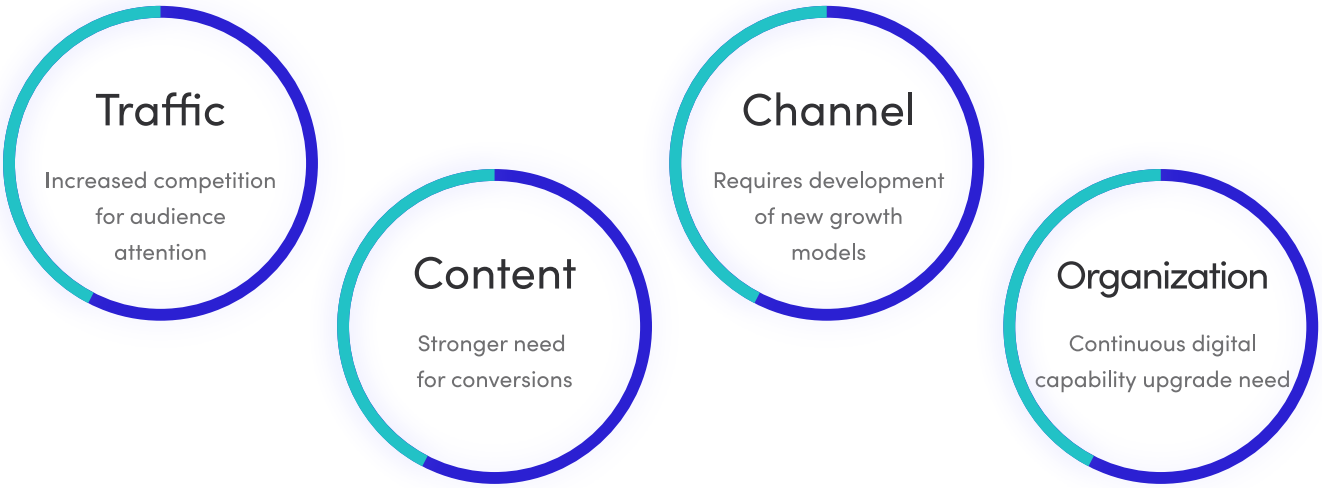
CONVERSION

New demands for business growth: driving continuous transformation that fuels brand image

A Pain point: Competition for traffic intensifies as consumer expectation for content quality becomes higher

Brands face new challenges amid intensifying traffic competition and ever-growing consumer demand for content. On one hand, cost of business is increasing, and post-link conversion attribution and effectiveness is often questioned; on the other hand, limitations of traditional e-commerce in consumer communication and engagement puts more pressures on omnichannel marketing, that requires more complex digital capabilities.

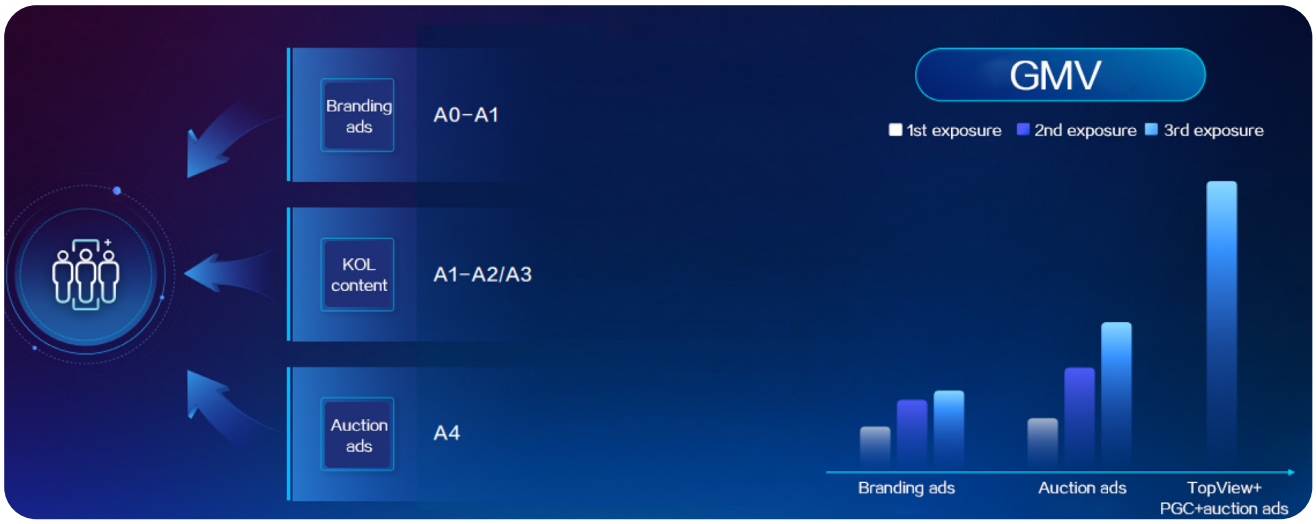
Business growth pain points



B Corporate goals: Multi-faceted communication of brand appeal is key to building a multi-dimensional brand image

The right image can help brands make a strong impression with consumers, and help drive sustainable growth. To this end, multi-faceted content marketing can play a pivotal role.

Multidimensional content to inspire conversions



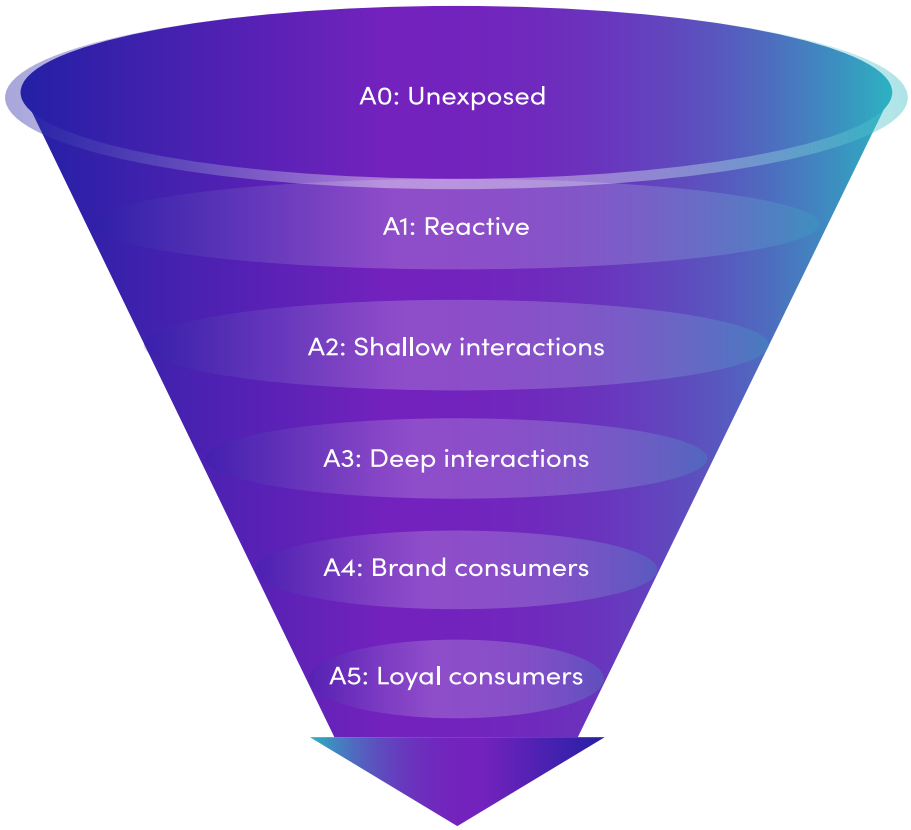
Making a breakthrough: Ensure the brand image is imprinted in the consumers minds as they travel through the consumer journey

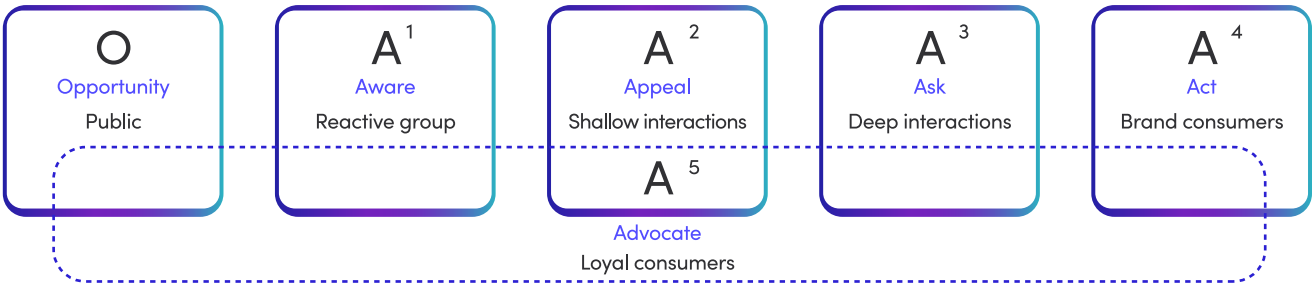
A Find the right people: Identifying who your brand should reach

As it was pointed out earlier, basic demographic profile, lifestyle and personality of consumers are key factors that can affect their beauty consumption. Customizing your message to best fit into the context of the consumers you want to reach is the first step to success, but how and when they are reached is just as important to drive a real impact.

Ocean Insights classifies consumers into 5A groups, which aims to help brands reach the right consumers and drive meaningful impact from their communication. Brands can greatly improve conversion efficiency by correctly leveraging the 5A model, as well as accumulate a pool of potential buyers. The accumulated relationships will become the basic building blocks for subsequent private traffic management.

5A audience groups





0-5A audience groups: ranked in terms of TA' s relationship with brand

B Multi-faceted contents: Leverage KOL influence and quality content to drive buzz and enhance brand equity

a. Strategic and efficient use of popular IPs to extend marketing potential

Content lead full-funnel marketing strategy

In this era of content, KOLs are quickly increasing their influence on consumer purchase decisions. Content design and KOL selection is the key to maximizing efficiency of consumer communication and engagement efforts. Highly popular IPs are also one of the top choices available to brands.

Douyin data shows that IP-collaboration can present many advantages to brands. In 2020, Winona's "Muse Arrives" hashtag reached 100 million views, showing that celebrities and hot topics can effectively drive search behavior and enhance the attractiveness of the content. This synergy applies also to livestream activations. Winona, in celebration of the March 8th 'Queen's Day' sales festival, achieved an impressive growth in GMV by inviting celebrities to join its livestream, which reached 10 million viewers.

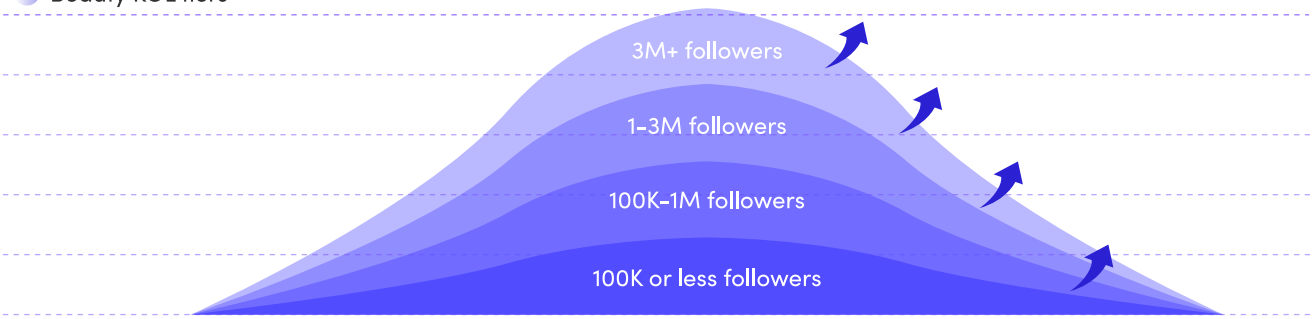
b. Strategic use of KOLs to drive multi-faceted social media presence

- Total number of KOLs and their followers are ever-growing, value of their word-of-mouth cannot be underestimated

KOL community is in rapid development across all digital platforms. According to Douyin data, the number of beauty KOLs of varying levels of popularity and influence grew significantly in 2021; these different tiers of KOLs can play a different role in content delivery.

BEAUTY KOLS

Beauty KOL tiers



Different types of beauty content

Short video

Mid-length video

Long video

Livestream

KOL + CPS + KOC + IP

Leading internet celebrities ensure scale, driving traffic and sales

After years of cultivating its content ecosystem, Douyin has given birth to a group of leading KOLs with undeniable influence. Their words are closely followed, and their recommendations paid extra attention to. They can help brands gain wide exposure, transform brand image, and attract target audiences in a short period of time through endorsements. In addition to driving traffic to brand contents, KOLs can also provide a sales boost for not only niched emerging brands but also widely known market leaders.

KOLs with different styles are emerging amid content evolution

Analysis of beauty KOLs who quickly rose to stardom on Douyin last year showed that they were quite different from conventional influencers. With the evolution of the Douyin beauty KOL ecosystem, the pool of KOLs focusing on deals and discounts has become saturated. Instead, KOLs sharing their knowledge and expertise are beginning to gain more traction. They commonly share the following characteristics:

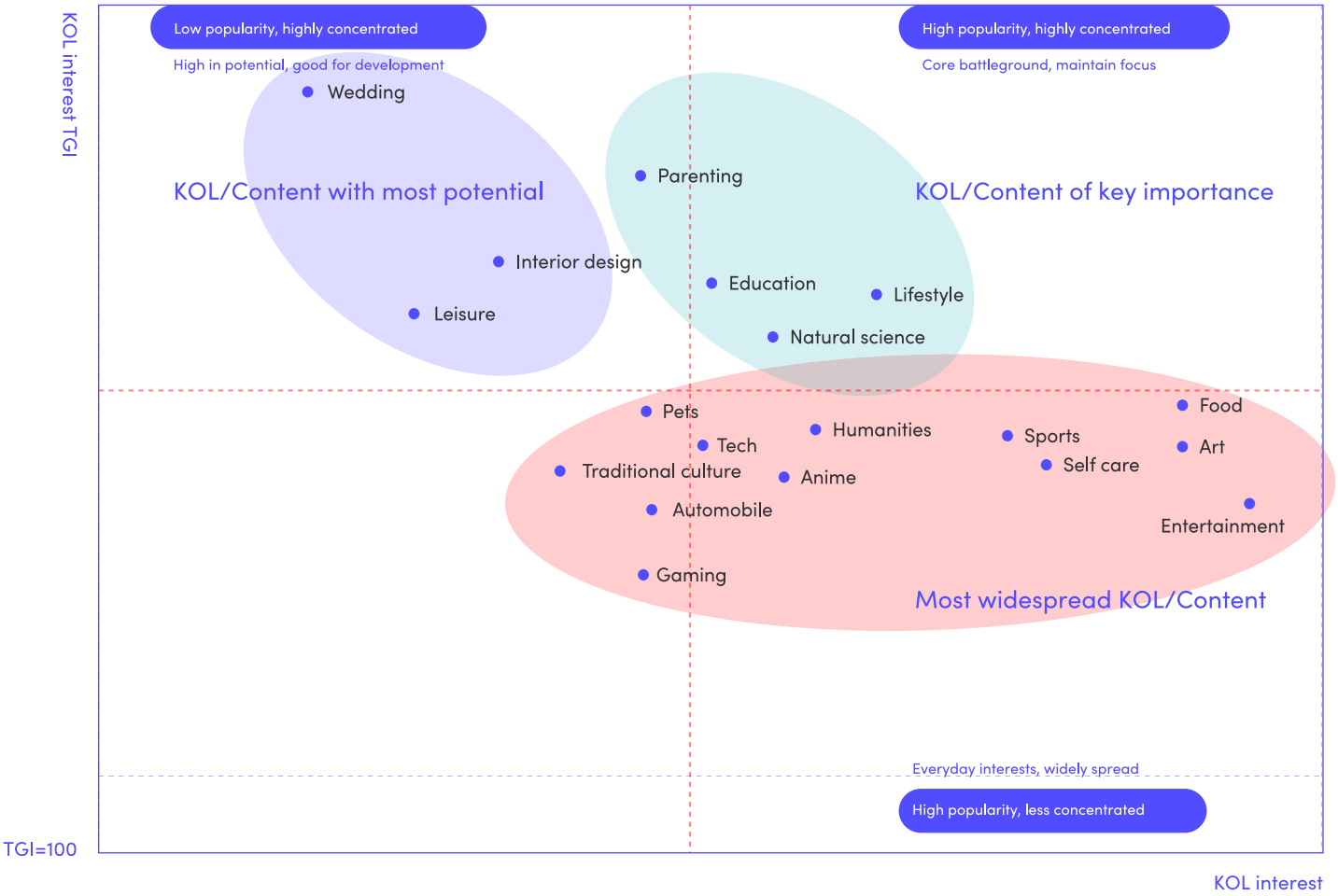
- Professional background
- Distinctive personal style
- Personable livestreaming communications
- Daily vlog update
- Authentic and honest product evaluations

Tapping into Latent Demands: Engage with beauty consumers through non-beauty occasions and topics

No matter how loyal consumers are, they will not invest all of their time on beauty contents. As such, understanding consumers' other interests can help brands further enhance the effectiveness of their marketing efforts.

Analysis by Ocean Insights shows that beauty consumers are more likely to pay attention to contents related to lifestyle, parenting, education, and natural science. There are also additional under-developed opportunities to explore into topics such as wedding, interior design, and leisure. A successful KOL strategy should incorporate these related occasions to help brands win the battle for consumer attention through multi-faceted contents.

2021Q1 Douyin beauty audience interests



Data source: Ocean Insights, 2021Q1

ACTION

07

Operational Guidelines

"Insights to Drive Targeted Development to Win"

A. Monitor the macro beauty market trends

B. Seize the growing trends

C. Leverage product momentum

D. Explore breakthroughs in competition

E. Focus on key TAs

F. Challenge the boundaries of marketing

A. Monitor the macro beauty market trends

- The Chinese beauty market has quickly recovered with consumer spending power continuing to expand.
- Optimize e-commerce and digital content layout, leverage new media formats such as livestreaming, and build a communication plan with multi-faceted contents.

B. Seize the growing trends

- Pay attention to rising segments such as high-efficacy and advanced skincare products.
- Address consumers' growing demand and expectation for more specialized and professional products and content by upgrading ingredients and related communication language.

C. Leverage product momentum

- Develop and anchor the brand around a bestseller, and continue to upgrade its proposition. Innovate to develop new products that can offer add-value through new occasions.
- Research and develop new products, with a key focus on consumer demand diversification and upgrade. Evaluate the competition landscape to maximize the chance for success.

D. Explore breakthroughs in competition

- Enhance the core strength, and build a unique brand personality. Actively explore opportunities in trendy products/function.
- Accelerate e-commerce drive, optimize digital content delivery, and expand their reach throughout consumer journey.

E. Focus on key TAs

- Keep up with the needs of young female consumers, and more actively recruit lower-tier consumers with growing spending power.
- Closely monitor consumers' demand evolution to identify and target the most-relevant and high-growth potential segments.

F. Challenge the boundaries of marketing

- Accurately target potential audience groups and continuously optimize content to address hot topics to improve long-term delivery efficiency.
- Differentiate KOL selection and content, and achieve both qualitative and quantitative changes in consumer relationship to drive long-term growth.

Drive success by paying attention to the above. Create a long-term marketing on the back of in-depth consumer insights, and leverage cutting-edge digital tools to achieve exponential growth.

Statement

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【Ocean Insights】
Ocean Insights is a brand under Ocean Engine which provides insights related to content consumption trends. By relying on content consumption platforms such as Toutiao, Douyin, and Xigua Video, and applying the advanced data and technical advantages of Ocean Engine, we adhere to the concept of objectivity and rigor, in order to produce cutting-edge insights and perspectives on content trends, industry research, advertising strategies, etc. At the same time, our open arithmetic index and ranking data analysis tools can meet the needs of enterprises, marketing practitioners, and creators with regards to data insights.

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Data Description

【 Ocean Insights Data Description 】

- The groups of people analyzed in the report are all adults over the age of 18.
- Data related to short video content such as the number of views, likes, comments, and followers in the report has been derived from Ocean Insights and internal data platforms.
- Research Scope and Definition：

  - TGI=Target Group Index: Preference of the sample population compared to the overall population. Larger the value, greater the affinity the group has over the overall population. TGI = sample proportion/overall proportion*100
  - Douyin beauty industry content: Douyin videos with keywords related to beauty in the title or videos with beauty-related products or content posted by the beauty company 's account
  - Douyin Beauty Creator: Users who have posted beauty-related content on Douyin

【 Kantar Worldpanel Data Description 】

- In the report, the number of new product and bestsellers, category and brand sales, penetration rate, and other purchase data are all from the Kantar Worldpanel beauty panel；
- Research Scope and Definition：

  - Cosmetics: Including all facial skincare and makeup products; excluding body skincare products, lip balm, nail products and makeup tools
  - New Products: Products that have not been recorded and purchased by any sample individuals in the beauty panel before Y2019/2020
  - Bestsellers: 2019 bestsellers are cosmetics products that ranked as the top 1% in each segment by penetration; 2020 bestsellers are those that match or surpass the penetration level of 2019 bestsellers in each segment.
  - Local emerging brands: Local brands whose purchase penetration rate in 2018 was less than the average value of all local brands, and the purchase penetration rate in 2020 is higher than that of 2018

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