

The chinese prestige cosmetics market

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Procter & Gamble's (P&G) success in marketing the premium SK-II brand in the Japanese market shows that SK-II has the potential to become a global brand, with the ability to penetrate and establish a wide consumer base in the domestic Japanese market, the emerging Chinese cosmetics market, and the mature European market. Undoubtedly, all three markets are attractive and promising for untapping the potentials of SK-II. However, there is reason to believe that the Chinese market will have a crucial role in its successful expansion to other markets as a global brand.

Considering the efforts of top management at maintaining only the brands with enormous potential for international expansion, SK-II clearly needs to prove that it is worthy of the investment and effort through a critical success even in risky environments. Hence, China should be the priority based on the factors of P&G's competitive advantage in market entry, market potential, market readiness, and the risks involved in investments. Accordingly, the next priority should be the Japanese market and the least priority should be the European market.

First Priority: Aggressive Brand Introduction and Market Development in China An examination of the external and internal factors that would affect SK-II's success as a global brand reveals that China presents the best opportunity for SK-II's market expansion. The success of SK-II's core products in the Japanese market has obviously primed the Asian prestige cosmetics market for an expansion of SK-II into other markets. This is evident in the successful expansion of SK-II within its neighboring regional markets.

P&G can capitalize on SK-II's concentration of the major Japanese market and minor Asian markets to bankroll the brand's international roll-out into <https://assignbuster.com/the-chinese-prestige-cosmetics-market/>

China. China is the most obvious choice for SK-II expansion given the similarities between Chinese and Japanese culture, which would entail a faster and easier adaptation of brand strategies and development processes. It is also reasonable to assume that Chinese women are more likely to use products that have high usage and effectivity perception among other Asian women than those used in the West.

SK-II's outward expansion into China would complement rather than hinder P&G's penetration into the Chinese market. Indeed, SK-II's entry into China would be the best strategy given that the intense low-cost competitiveness of local Chinese manufacturers would pose a harder entry barrier for P&G's mass market products. (Philippe, as quoted in Penhirin, 2004, p. 6) Likewise, SK-II's success as P&G's brand extension in the Chinese market is critical in the creation of increased brand equity for the company among Chinese consumers.

This is doubly important given that P&G's securing a strategic position in the higher-income market segment cannot be sustained by the Olay brand, which has drawn negative reaction among competitors for being marketed as a high-end product in China despite being mass-marketed in Western markets. SK-II's presence in the strategic Chinese market cannot be stated enough. Wu, et. al. , (2008) report that " the cosmetics market has grown from around US\$25 million in 1994 to \$7. 9 billion in 2004, and is expected to expand at an annual rate of about 12%. (p.

203) This makes the Chinese cosmetics market the next largest Asian cosmetics market after Japan. Likewise, the same authors note that " the cosmetics industry has become the fifth largest consumption hotspots on the <https://assignbuster.com/the-chinese-prestige-cosmetics-market/>

Mainland China only after real estate, automobile, electronics, and tourism. ”

(Ibid) Given China’s rapidly growing economy, the cosmetics industry can be expected to be more profitable in the following years. China’s rapidly growing economy has enabled the development of an upper-income consumer segment in the major cities of Shanghai.

The affluent market composed of the elite and upwardly mobile middle class who are better educated and more brand conscious than the rural Chinese populations, can be targeted for market development and marketing efforts of the SK-II brand. Schmitt (1997) notes, for instance, that while Chinese consumers do not appear to spend on high-ticket items such as cars and other luxury products, “ certain expensive but affordable foreign brands seem to take on the function of luxury products in nondurable categories such as cosmetics, personal care products and premium ice cream.

” (p. 194) This consumption pattern clearly points to the growing brand consciousness among China’s elite, who seek to affirm their status and differentiate themselves from China’s masses through the consumption of prestige brands, which in turn ensures a ready market for SK-II as a premium product. Meanwhile, the introduction of SK-II into China is not without risks. As an emerging market, China is also vulnerable to instability, (Quelch, 1999, p.

10) which could undermine the company’s strategic objectives. SK-II’s foray into China would also entail a considerable investment in supply-chain and marketing activities, which would mean a longer ROI period than if the P&G decides to invest in its Japanese market. This makes it a very risky venture considering that compared to mass-market products, prestige products have

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a high obsolescence levels, high inventory costs, and highly vulnerable to negative image perceptions. (Wu, et. al. , 2008, p.

206) SK-II will also be facing stiff competition from other brands vying for the high-margin, profitable premium market. Aside from legal competition, the brand would also be confronting the adverse impact of counterfeit products on consumer trust and affect profitability. However, the opportunities that SK-II provides in facilitating P&G's entry into the second-tier consumer segment and in carving a niche market in the Chinese cosmetics industry far outweighs the risks involved in its Chinese expansion.

The fact that China is still a young and emergent market means that there is tremendous opportunity for brand penetration and growth, as opposed to mature market environments. Likewise, the company can use its strengths in innovation-focus and product development expertise to counter the fast obsolescence rate of premium products. It can also leverage its more efficient decision-making processes, enhanced by the recent organizational restructuring, to exploit core competencies in value chain activities such as after-sales support and the delivery of superior customer services.