

# [Shiseido: supply chain and distribution systems](https://assignbuster.com/shiseido-supply-chain-and-distribution-systems/)

Chinas cosmetics market has grown dramatically in recent years. Given its established business for ¥42 billion in China, Shiseido has identified China as its leading priority. As Shiseido develops strategies for expanding its presence in China, it needs to look for ways to develop its supply chain and distribution channel to give it a competitive advantage over other cosmetic manufacturers.

The Chinese cosmetic market is highly fragmented. Import brands (imports being considered premium in China) are price around 300 RMP or higher, while the local brands sell at 10-20 RMB. Foreign cosmetic firms that manufacture through joint ventures with the local partners are able to get a slight premium over domestic manufacturers and sell for 20-30 RMB. To compete in this highly fragmented market, Shiseido has adopted a well-diversified strategy offering multi-brands in all categories. It then uses retail price as a signal of the category: Premium, Mass-premium, and Mass.

Shiseido Premium Segment (Supply Chain and Distribution System): In its premium product segment, Shiseido tried to align its supply chain and distribution system to give it an advantage over other competing international brands like P&G, L’Oreal etc. Given the Chinese association of premium with imported products and the lack of technology to produce these in China, Shiseido produced its premium products in other regions and exported the ¬nished goods to China. It was an ideal strategy and helped Shiseido maintain high perceived image in the premium segment.

However, its real advantage over its competitors was in the distribution channel for such products (The supply chain strategy was easily duplicated by others). Given its early entry into Chinese Market, Shiseido had been able to capture a significant portion of departmental stores sales and had started to develop its own speciality stores. This gave it a strong foothold in the market.

However, as its earlier experiences in its own domestic market had shown, a very successful strategy can in times of rapid change make the firm reluctant to switch. This will in fact be a big threat to Shiseido future growth in the China Market. As competition in the industry increases and other channels of distribution open up increasing fierce price competition, Shiseido might find it had to innovate on new forms of distribution channels compared to its competitors. This was why it had lost market share in its own domestic market during the 1990’s, not being able to react to decline in share of departmental and speciality stores in total domestic market. During this period its competitors like Kao, Kose and FANCL rapidly gained market share. This phenomena has begun in the Chinese market: relative market share of cosmetics sold at the department stores have declined from 72% (1997) of all cosmetics sales to 48% (2004).

Shiseido Mass-Premium and Mass Segment (Supply Chain and Distribution System): In its non-premium (ie Mass Premium and Mass) market segment, Shiseido relied on a supply chain management system based on Joint Ventures with a local Chinese Partner. The important advantage of such joint ventures was that Shiseido was able to exploit local understanding of market to develop products (Eg Aupres) specifically targeted to the Chinese Market. This provided a competitive advantage.

Shiseido tried to develop a distribution system in the form of network of voluntary chain stores for its non-premium segment (apart from the other common distribution network shared with other firms including drugstores, general merchandise stores and convenience stores). This approach was first adopted by Shiseido in its own domestic market and had grown to become backbone of the firm and standard distribution system for the industry. “ It established the system under the company’s principle of coexistence to create a business environment where the manufacturer could work hand-in-hand with the sales outlets. The voluntary chain store system required no franchise fee, and stores were free to join or leave at any time. The chain stores, also known as speciality stores, were required to provide an exclusive retail space for Shiseido. Products had to be sold though consultative selling by trained sales personnel, known as health consultants, provided by the company.” (HBS Case 9-805-003). At its peak in late 1990’s the firm had 25000 chain stores, which gave it an edge over its competitors in the Japanese market.

Although the success of the strategy in Japan seems to encourage its adoption in China market, it may face various institutional problems in China. First, like with departmental stores intensified price competition and change in distribution channels can lead to drop in market share of such stores (are quite vulnerable to changes in market) and affect the company’s competitive strength. Second, it is dif¬cult to eliminate the risk of counterfeits in the Chinese Market. Shiseido already faces the problem of such stores selling counterfeit Shiseido products, that not only affects revenues but compromises on brand value and quality perception of consumers. Third, the concept of speciality stores is based on the fact that they provide consultative services for specific brand thus helping to increase brand loyalty, while bringing in useful information about consumers preferences for further product development. In China, the lack of availability of trained human resources might mean that Shiseido will have to spend substantial resources in developing such human capital before it can look to gain an advantage from such speciality stores.

Another factor that might affect this segment of market is that its policy to focus on voluntary chains stores might drain its resources and affect its efforts to develop other distribution channels like Supermarkets (e. g. Wal-Mart) or lower segment departmental stores and pharmacies (like Vichy by Loreal sold through pharmacies) etc.

Thus we conclude that given its early entry into Chinese Market and its well diversified strategy of competing in multiple brand categories, Shiseido might be able to maintain a certain lead over its competitors in the market. But sustainability of such advantage will rest upon its ability to alter and adapt its systems to changes in the market. Especially important in an industry like Cosmetics (where consumers consider price and brand to be the most important factors) is to develop efficient supply chain and distribution systems while retaining the element of flexibility to meet changing market conditions. The second is to invest wisely in brand development.