

# [Mary to penetrate lower level cities. in the](https://assignbuster.com/mary-to-penetrate-lower-level-cities-in-the/)

MARY KAY COSMETIC (MKC) CASE INTRODUCTION One of the direct seller of beauty product inAmerica Mary Kay, is a second largest cosmetic brand in the world, behind Avon, and ranked 14th in the global cosmetic market in 2015 with a 1.

0% value share. In line with beauty trends, Mary Kay focus on emerging markets where consumerdemand for its direct selling model is more effective. Asia-Pacific marketsrepresent major growth opportunities for MKC. These markets for Mary Kay, including Australia, China, Hong Kong, India, Korea, Malaysia, New Zealand, thePhilippines, Singapore, and Taiwan. The company have nearly 3.

5 million globaldistributors. It significantly outperformed its crucial competitor Avon overthe review period, thanks to its showy performance in China where Avon andothers have struggled. Its focus on beauty as opposed to a multi-categoryportfolio is a key part of its success, as potential distributors respond tothe brand’s simplicity. The company entered Chinain 1995 and ss of that day China is the largest sales revenue outside ofAmerica. Part of Mary Kay’s successin China has been attributed to the company’s message of female empowerment andfemininity, which has resonated in China, a country where young women have fewopportunities to start their own businesses. Speaking about the corporatephilosophy at Mary Kay, Mary Kay’s corporate objective is not only to create amarket, selling skin care and cosmetics; it’s all about enriching women’s livesby helping women reach their full potential, find their inner beauty anddiscover how truly great they are.

STRATEGIC DIRECTION Mary Kay plans to enrich its colour cosmeticsproduct portfolio in the forecast period to seek new growth opportunities amongthe accumulating competition in the beauty and personal care market. Mary Kayset up a new manufacturing centre in Hangzhou during the review period. Themaximum capacity of the new factory area is 90 million colour cosmetics whichexplains us the growth of the company. In view of the compelling competition in toplevel cities, MKC has shifted its focus to penetrate lower level cities. In thepast years, almost 70% of sales coming from third and fourth level cities inChina. Apart from contracted individuals, Mary Kay has made great use of socialmedia channels such as WeChat and Weibo to reach consumers in small villagesand towns in China. As a result, MKC is mainly engaged in theproduction and distribution of beauty and personal care products, includingcolour cosmetics, skin care and sun care products, fragrances and men’sgrooming. COMPETITIVE POSITIONING MKC has made great gains in China, theworld’s most preferred beauty market, while direct selling peers such as Avonsaw share slip.

Avon, its main global competitor, spun off its USA business in2016 after years of struggling to make the market work. This is the company’skey competitive advantage, one it has back up by keeping its offer simple, focusing on beauty mass market products. This, and its comparatively lowstart-up costs make it an attractive fascinating proposition for distributors, and a sales system based on skin care classes has built loyalty with itscustomer.

MKC ranked fifth in the overall beauty andpersonal care market in 2016. Marketing a wide range of products in beauty andpersonal care, May Kay has been making consecutive efforts to understand localcustomer needs and undertake its corporate social responsibilities, such as theMary Kay Women Venture Fund to help female entrepreneurs and to enrich women’slives. With a wide range of beauty and personal careproducts, mostly targeting mid to high income consumers, direct seller MKCmaintains its leading position as one of the top five competitors in skin carein China. To meet transforming needs and increasing consumer awareness ofpersonal grooming, MKC has enriched its product portfolio in colour cosmetics.

Many international companies have found ithard to penetrate lower level cities, especially villages and towns, due tologistics problems. Mary Kay has to achieve this challenge through directselling. Consumers in most of the villages can receive products directly fromMary Kay contracted individuals, and the number is increasing each years. MKCoffers training to these individuals through the internet, and believes thatdirect selling is the most effective way to penetrate lower level cities, asnot as many consumers in villages and towns can reach the internet. CATEGORY AND GEOGRAPHIC BENEFITS Emerging markets continue to offer the goodopportunities to Mary Kay, as their direct selling sales channels remain moreelasticity. Sales of beauty via direct selling in these markets are forecast togenerate 70% of the model’s sales in 2020, up from almost 70% in 2015.

Lower levels of urbanization in these marketsmean that distributor and customer relationships are often based on family, andare stronger. There is less consumer ironicalness about the model, and fewerwomen in the workplace means consumers are more likely to be able to find thetime for the face to face experience at home. Mary Kay can leverage thesefemale friendships to form trust-based buyer-seller relationships, whileoffering a way to generate a supplemental source of revenue. A dip in sales inChina in 2015 saw a confluence at the end of the review period, but emergingmarkets continue to hold significantly stronger growth opportunities, despiterapidly changing consumer habits. China and the US are the company’s mostcrucial markets for MKC over 2010-2016. These markets should build growth goingforward. Its success in China leaves MKC wellpositioned for long term growth. A decreased dependency on China and the USwould be good for the company.

However, given the problems the direct sellingmodel faces it looks strong, not least because its most direct competitor Avoncontinues to struggle. Much of Mary Kay’s success has been driven byits focus on the most important parts of the USA consumer base, includingLatina women, who are among the lowest level social group in the USA. It hassupported this with increased marketing spend and in particular social mediausage -this has seen recruitment levels of 18-35-year-olds grow in 2015 and isleading it away from its traditional perception in the USA as a middle-agedbrand. Mary Kay also enjoys a better reputation for product quality among USAconsumers, and although its start-up costs are higher than Avon’s, this isoffset by a higher commission percentage on each sale. Asia Pacific is Mary Kay’s primarydevelopment target, generating almost 50% of sales in 2015. China built thisgrowth, but given the company’s limited presence in ten markets set to seestrongest growth in absolute value terms through future years, there issignificant opportunity for more. Of these markets, Mary Kay held visible sharein just China and the Philippines in 2015. It abandoned India in 2013, citingregulatory concerns and poor sales; however, the managerial  environment there is becoming more formalized, and the country’s large, young, increasingly urban and aspirational demographicare worth another attempt.

HEDONIC CONSUMPTION Cosmetic is a hedonic consumption which is consumption of products by individualsfor experiencing happiness after satisfying basic needs of food, clothing andshelter. Consumption of items which are necessary for survival is called asutilitarian consumption. So after satisfying utilitarian needs if individual isleft with resources they can spend it on enhancing emotional pleasure which isknown as hedonic consumption in consumer behavior theory.

The emotionalpleasure generated by hedonic consumption can vary with every individual unlikein utilitarian consumption where satisfaction level is same for everyindividual as they are basic needs.  In today’s society, consumers arecontinuously exposed to imagery of highly attractive females advertisingcosmetic brands. The high consumption of cosmetics is due to the greatimportance assigned to physical appearance in our present society – in whichbeauty and physical attractiveness are constantly emphasized as desirable andadmirable characteristics.

This study analyses the effect of perceivedinstrumental and hedonic brand associations on women’s satisfaction withcosmetic brands. Overall Mary Kay’s main focus is to providetop quality skin care and color cosmetics that target women ages 25-55, whilestill offering products that satisfy the needs of men and other women aswell.  Their products are readilyavailable to anyone in the world through online ordering and referred salesconsultants.  Customers, especiallywomen, love how the products make them feel. CHINESE COSMETIC LANDSCAPE Women Behaviour Mary Kay provides a wide range of differentproducts including skin care, fragrance, color cosmetics, hand and body care, suncare, and special occasion gifts. Although they do provide products for theneeds of both women and men, they’re targeted more towards women age 15 and up. When looked at even further, their core focus is skin care and skin careproducts for women age 25-55. Women who were born in the 1980s and 1990sare the fundamental users of colour cosmetics.

Younger generations payattention to their appearance and tend to try new products. Popular make-upstyles, as well as trendy colours, encourage consumers to purchase more colourcosmetics. At the same time, players have made efforts to cooperate with keyopinion leaders such as celebrities, make-up experts and beauty bloggers toboost sales of hot items.

Competition Some Chinese cosmeticsproducers such as Chinfie, CMM, Houdy, Longrich, Herborist and Chando gained alot of market share with their international counterparts. Meanwhile, somedomestic brands that have been long established as Pechoin, Maxam and Bee are also actively changing, rejuvenating their products or develop newones to meet the market demands. Today, some large domestic companies havedecided to develop high-quality products to meet the increasingly needs ofconsumers in the middle and high-end domestic markets. China encounters a lotof competition from foreign brands such as Mary Kay, Shiseido L’Oreal, EsteeLauder and Olay. Even if these global giants engage in oligopolisticcompetition, the low-end market is divided by locals. The market forcosmeceuticals is dominated by foreign brands.

In 1992, avon presence wasgeograph? cally in Southern China which left large market oopportunities forMKC’s products to be introduced in across China. Currently, major cosmeceuticalbrands present on the shelves of pharmacies include Vichy, La Roche-Posay, Freeplus and simple. Domestic brands such as Tongrentang, Herborist and Sanjiuare also part of the cosmeceutical market and are gradually recognized byconsumers. Demographic  When deciding between adirect investment into either China or Japan, it appears as though China has amuch larger potential upside. While Japan is a mature and competitive marketunder an oligopolistic cosmetics reign, China is growing at alarming rates.

The total Chinese population is roughly tentimes larger than the Japanese population and China’s urban population isroughly 307 million while Japan’s in only 95 million.  To put the Chinese urban population intoperspective, there are millions more people living in urban China than live inthe entire United States.  UrbanMigration According to government figures, China’seconomic growth in the past three decades has increased 700 million people outof poverty. China also observed the largest migration of people from rural tourban areas during this period. The share of citizens living in cities willrise to 60% by 2020 in China due to the report of National New-TypeUrbanization Plan. China attempts to shift from investment toconsumption-driven growth.

This migration trend has created megacities; populations were tens of millions, which creates lots of challenges, whichChina must be overcome. This makes China’s urban growth more environmentallysustainable, socially inclusive, and powered by urban planning focused oneffective land conversion and land-financing policies. Chinese experienced greater economic growthin urbanization process and that’s why offered better employment opportunitieswith higher productivity and wages. Also rural land-policy changes and thehousehold registration system also led people to migrate from rural areas tourban areas. Chinese society and economic structures have affected bymigration. Health insurance, pensions, schools, housing and services aredemanded after the migration and the number of traditional family-based Chinesedecreased.

Crowded cities need better city and transport planning to make themmore effective and more livable. Another crucial thing is an employmentopportunities. For example, service sector can be efficient in order to absorbmigrants to cities.

The Chinese Government has also initiated on regionaleconomic planning projects.  Ultimately, the trend toward urbanization isinspiring brands to focus on the customer experience. In doing so, companiesare adopting innovative approaches to physical space and cultivatingpersonalized technological services for consumers. The spread of city culturemeans customers are willing to pay more for brands that sell experiences andlifestyle as well as provide on-demand convenience. China isset to become largest cosmetic market in the world    JAPANESEE COSMETICS LANDSCAPEMARKET, CULTURE, TRENDS AND WOMEN BEHAIVOUR  WomenBehaviour There is a strong natural beauty trend inJapan, with women increasingly seeking a naturally healthy appearance ratherthan a dramatically made-up look. This proved beneficial for colour cosmeticsin the main, however. Women are updating their colour cosmetics in search ofproducts that offer subtle and natural colours and the appearance of a glowingskin.

Cushion foundations benefited from this trend, with these positioned ascreating a natural and fresh complexion. There was also a growing focus onseasonal colours within colour cosmetics, with autumn for example seeing the growinguse of warm browns and spring seeing a stronger focus on pink colours acrosscolour cosmetics. Sales towards the end of the review period benefited from arise in tourist demand, particularly from young Chinese women. Many Japanesecolour cosmetics brands have an iconic image in China, with these linked topositive reviews online, particularly via micro-blogging site Weibo. Whileoverall spending per tourist dipped in 2016, due to a stronger Japanese yen, colour cosmetics continued to see interest from tourists as a result, partlydue to being relatively affordable in comparison to higher-priced purchasessuch as personal accessories. Demographic After 1990, more women started getting highereducation and attending to the business life. After they start earning money, the women have more interest on hedonic consumption such as cosmetic, traveland etc.

Japanese women interest with foreign brandsand they spend three times more than Western women consumer. Although themajority of the cosmetics purchases are from women between 20-29, thepopulation is growing older in 2000, the greatest percent of women were 50+. Japan’s ageing population offers bothchallenges and opportunities, with players becoming more adapt at catering tothe needs of older women. More accessible and easy-use products particularlyappeal to this group. As people age, many find it more difficult to use smallpackaging and packaging that is complicated or difficult to open. The reviewperiod saw a number of launches of colour cosmetics specifically targeted atsenior women, both via packaging and the use of subtle colours, such asShiseido’s Prior, Kao’s Primavista Dea and Kosé’s Elsia. UrbanMigration  ??? Competition Shiseido continues to lead colour cosmeticsand marginally increased its share.

The company is well-known both in Japan andglobally and has a high quality reputation, while its strong brand portfoliocovers both premium and mass products including Maquillage, Shiseido FITIT andClé de Peau Beauté. In 2016, the company also benefited from acquiring UScompany Gurwitch Products, which added premium colour cosmetics brand LauraMercier to its portfolio in Japan. Domestic players lead colour cosmetics, withthe top four companies Shiseido, Kanebo, Kosé and Kao. These players benefitfrom a number of factors, including many Japanese consumers’ belief in thehigher quality of Japanese brands and their desire to support their domesticeconomy. Japanese brands’ reputation for quality and innovation also attractsmany tourists visiting the country.

These companies also benefit from investingheavily in research and development, thus continuing to offer new productsdeveloped to meet consumers’ demands. There are also many significantinternational players, however, with a wide range of global brands offered inJapan. L’Oréal notably ranked fifth with 5% value share in 2016, thanks to itsfashionable and affordable mass brand Maybelline and iconic premium brands suchas Lancôme and Helena Rubenstein.   Researchand development The company has an underwhelming history ofproduct innovation, typically following rather than leading. This is in linewith its mass-market position; however, this may become more of an issue in thelong term as it seeks to improve its competitiveness. RECOMMENDATIONS  MKC should also advertise Men’s Products  MaryKay has a wide range of men`s products line from skin care to fragrances.  But there is a lack of product awarenessamong men. Most men wouldn`t aware of this men’s category if they didn’t surfon Mary Kay’s official website or if they didn’t get recommendations frompeople who purchase MK products.

Whilemen enter the website they face with Mary Kay’s slogan “ Enriching Women’sLives” at the main page which may make them uncomfortable even though themeaning of this slogan has nothing to do with the actual products. Therefore, only advertising towards women and hiring mostly women as beauty consultants, are not so effective to target also men. It is obvious that Mary Kay shouldmake advertisings which focus on men skin care and should also train consultantsfor men products. No Storeto Sell Products – Everything is Door-To-Door (Real stores at the malls and main shoppingareas) The company is against to opening a retailstores in order to sell its products. The problematic results of not having aretail outlet can be reducing amount of people who are just walking by.

Imaginethat company has a store located near the shopping mall or inside it, lots ofcustomers will visit the store even if they don’t need anything but it willprovide company the great awareness. Company is losing lots of potentialcustomers by not opening the stores.  Small Size Compared to Competitors (MKCshould work on the revenue increasing) Mary Kayand Avon’s revenue is smaller than other competitors. Mary Kay’s revenueexceeded $2. 6 billion in 2008 and  Avon’srevenue was more than $10. 6 billion in 2008, which is almost five times more. Small size of Avon cosmetics can be a problem when it will compete with othercompetitors.

That’s why a big difference in revenue is led to Avon widen theproduct range which spread far from cosmetics. HOFSTEDE INSIGHTS CHINA JAPAN Mary Kay Cosmetics: Asian Market Entry Case Analysis The Porter Diamondtheory of national advantage is a model that aims to provide a betterunderstanding of the competitive advantage that group or companies possess as aresult of certain circumstances (Yetton et al, 1992). In addition, the PorterDiamond Theory helps to acquire a better understanding of the ways in which acompany can change its position in the competitive global environment (Zumbach, 2009). The need forunderstanding and applying international marketing in the work of organizationsis increasing every year. This is due to both the expansion of internationalrelations and the use of marketing as a basis for developing a market strategyfor organization and improving the competitiveness of products and servicesthat are being manufactured and sold. In the event of entering the worldmarket, the organization has to carefully analyze it, choose the right marketsand develop a strategy on how to enter the most suitable market.

All of theabove causes an increased interest in international marketing and theproblematic aspects of international marketing, including in a crisissituation. The competition in the foreign market is more severe, and thecustomer is more demanding (Jain, 1989). Further expansion ofMary Kay to Asia promises to be successful. Firstly, the countries of Asiaregion are currently actively developing (Palamalai & Kalaivani, 2016). Thestandard of living in them is growing; the number of people who can rankthemselves as middle classes is rapidly increasing (Brendan & Siok Kun, 2017). Secondly, this area is attractive for investments – many large worldcorporations open their branches here. Thirdly, these countries typically havelow competition in the sphere of makeup and skin care (Greany & Karakaovali, 2017).

The Asian region is attractive for tourists, a large number of Europeansand Americans come here to work under the contract. In carrying out foreigneconomic activities, organizations strive to maximally standardize theirmarketing mix, or bring it closer to the conditions of the foreign targetmarket chosen for the distribution of their products. At the same time, thecommodity policy of a company focused on the international market can be basedon one of three strategies: –       Distribution of goods in an unchangedform (as, for example, Coca-Cola, Pepsi-Cola without changing the compositionof the beverage and trademarks); –       Adaptation of the goods to theconditions and preferences of the chosen target market (for example, Starbuckscoffee houses, adjusting the menu according to the preferences of the country); –       Creation and promotion to the market ofa fundamentally new product (Yang & Fam 2012).

As an example of aninternational marketing strategy, it might be helpful to consider the Americancompany Starbucks, which in 1994 proclaimed its main goal to establishStarbucks as the world’s leading supplier of high-quality coffee, preserving asit grows and develops a commitment to its uncompromising principles(Taecharungroj 2017). Following the global strategy, in 1995 the subsidiaryStarbucks Coffee International was established, which was set in the Asianregion. At the same time, the complex of marketing activities is different inthe domestic (US) and external (Japan) markets. More specifically, varioussandwiches with local taste preferences were added to the Japanese market andthe sizes of portions of dishes and drinks were reduced, since the Japanese didnot eat much. In addition, customers were offered the option of replacingstandard milk with soy (Haskova 2015). It might be helpful forMary Kay to adopt a similar strategy. The changes should be insignificant, suchas color or product name; less often they might concern the promotion strategyand the set of marketing communications elements (Wind, Doubglas &Perlmutter, 1973). The price strategy can also be transformed.

The strategyshould be applied for establishing unified prices or for ranking pricesdepending on the country.