

Sa sa cosmetics case study



**ASSIGN
BUSTER**

1. Nature of demand

* Sa Sa International Holdings Limited is mainly a discount retailer of cosmetics. It also provides beauty and fitness service through nine Phillip Wain ladies' health and beauty clubs.

* Sa Sa's sells a wide range of skincare, hair care, fragrances, and cosmetics (make-up). Below provides more information of the nature of demand of each product type:

- o Skincare products widely demanded are sun light protection and whitening products in addition to the usual cleansers, toners and moisturizers. These have higher price points and are likely to generate repeat purchases

- o Hair care commended less loyalty

- o Fragrances had higher price points and were popular gift items

- o Cosmetics tended to have shorter life cycles, and are heavily influenced by fashion trends, personal preferences and seasonal factors

* 54% of Sales are for skin-care products, followed by Fragrances at 20%, Cosmetics 16% and Hair care at 10%

* The company sells 600 international brands and 90 house brands.

- o House brands contribute 27% of the company's turnover in 2001, up from 9% in 1999, signaling growth opportunity. Production is outsourced in Europe and North America, but marketing and distribution is done in-house.

* Consumers perceive cosmetics and toiletries imported from Japan, Italy, France and the United States to be high quality and prestigious. This is why the company sells more International Brands, and probably why the production of house brands is done abroad.

* Sa Sa's customers are women with the following characteristics

o Characteristics of the typical Sa Sa customer

* Age: 20-65

* Half of Sa Sa's customer base is comprised of full-time working women. The other 50% is made up by part-time workers, students, and housewives.

* High monthly income

* Customers prefer imported goods

* Want to spend their money on high quality products and prestige

* Price conscious

* Fashionable and trendy (producers adjust to customers on seasonal basis: colors, shades, trends, etc.)

* Loyal to the brands they purchase (regarding skin products)

* Sophisticated - like trendy and well designed products especially imported from abroad.

* They pay attention to a product's brand name, price point, ingredients' quality and packaging

o (Unique) Benefits of Sa Sa to its customers

* Looking for convenience

* Wanting a wide range of products

* Part of the convenience is good locations of the stores as well as highly-educated consultants advising the customers on their needs

* Lower prices compared to its competitors

* Sa Sa's competitive edge is providing quality products at a fair price. Fair price means setting prices within the customers' comfort-zone, which are considerably lower than the manufacturer's suggested retail price (MSRP). This competitive edge is only sustainable to the extent that Sa Sa is able to buy cheaply priced products in the secondary markets of cosmetics wholesalers; and to the extent that Sa Sa gets free reign on the amount of discounts it will give to customers.

2. Extent of Demand

o The market is very large and lucrative (no import tariffs on cosmetics) (please refer to page 2).

o The market is also growing since people " become more aware of their appearance" (refer to page 2). Proof for this can also be found in a 45% increase in turnover since 1997, even though there was a huge crisis in the Asian economy.

o Tourism also provided a substantial market for cosmetics and toiletries.

The aggregate expenditures by visitors in 2000 amounted to \$8B and cosmetics and perfume were highly popular products.

o Sa Sa's market share is 25%

o \$740 million market in 2001 (Hong Kong only)

3. Nature of the Competition

o Imitators and entrenched players (drugstore chains, department and specialty stores) flooded the market and caused a lack of supply

o Compared to the competition, Sa Sa has also become perceived to no longer offer competitive prices. This was uncovered from the Market Research Data and the trend is true to all 3 Customer Segments i. e. Real Spender, Best Over-all Value Seeker, and Convenience Seeker

o Discounter (chains and small imitators)

* Two big players: Bonjour and Rainbow

* Those have identical strategies: same target groups, same product ranges, identical pricing

* Strengths:

* Wide variety of novelties and trendy cosmetics

* Competitive prices and promotional offers

* Weaknesses:

- * Running out of stocks frequently

- * Not well-trained staff

- o Drugstore Chains

- * Watson and Mannings: highly visible and accessible, located in most big malls in Hong Kong

- * Strengths:

- * Strong brand name recognition

- * Good market access due to having a lot of stores

- * Weaknesses:

- * Uneducated staff and weak beauty competency

- * Space limitations due to more SKUs and smaller stores

- o Department & Specialty Stores

- * Strengths:

- * Broader, very diversified product range

- * More knowledgeable staff than discounters

- * Weaknesses:

- * Highest prices

4. Environmental climate

o Political

* Transparent regulations and well-established rule of law

* Tourism industry of Hongkong continues to flourish

o Economic

* High buying power (income of \$25, 000 per capita annually)

* No import tariffs

* Rather strong growth (5% projected for 2001)

o Social

* Customers are becoming more open-minded towards purchasing cosmetics

5. Stage of the product life cycle

o Product: The cosmetic industry is very mature, since it has existed for ages. Fashion and innovations, however, cause a very short life cycle of the products.

o Cosmetics retail market: Mature level. There are a large number of players in different retail formats.

6. Costs

* Sa Sa's Inventory is made up of purchases from authorized agents and parallel imports. Parallel imports used to be the major source, however, with

more players in the field, by 1999 45% of Sa Sa's merchandise was purchased from authorized agents.

- * Purchases from authorized agents provide a higher gross unit margin for Sa Sa than parallel imports when sold at MSRP.

- * However, intensified demand for parallel imports caused a lack of supply.

- * Moreover, because of pressure from competing retailers, authorized agents control the extent of the discounts that Sa Sa can give its customers

- * Both developments posed a real problem to Sa Sa's discounting strategy.

7. Firm skills

- * Large expertise in discount retailing of cosmetics; pioneered the concept in Hong Kong.

- * Employees /beauty consultants receive at least three to six months intensive training. Thus, much more knowledgeable sales staff than its main competitors.

- * Well-established house brands with exclusive distribution rights for Sa Sa

- * Entrepreneurial expertise:

- o First company to offer high-end cosmetics at a discounted price

- o Expanded geographical scope (Taiwan, Mainland China)

- o Expanded into new markets: spa/health club and health food

* Proactive behavior, i. e. Sa Sa is observing trends, opportunities and needs ahead of their competitors.

8. Financial resources

* Sa Sa has " deeper pockets" than its discounter competitors Rainbow and Bonjour.

* Their debt ratio is very good, driven by a significant cash balance of \$76 million (from Balance Sheet, p. 17).

9. Distribution structure

* Sa Sa comprises more than 50 stores in high-traffic areas.

o Bonjour has only eleven retail outlets and Rainbow has eight stores.

o However, the leading drugstore chains comprise more than 250 outlets in Hong Kong.

* Sasa. com provides another distribution channel for the company.

* Moreover, Sa Sa just launched four self-service stores

* Finally, the company entered China via a joint venture with the leading Chinese cosmetics retailer.

* In summary, Sa Sa's distribution structure is very good.