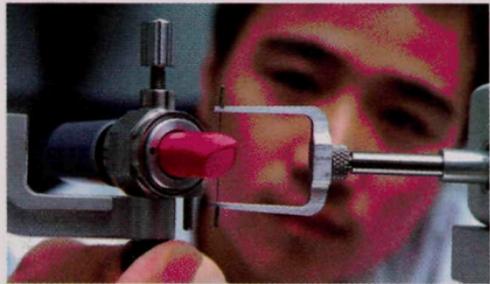


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Cosmetics

L'Oréal Puts on A Happy Face in China



- ▶ The French company tailors new cosmetics for Asian customers
- ▶ "Chinese people place a huge emphasis on beauty and skin care"

Twenty-four-year-old Corina Su is a cosmetics maker's dream customer. As part of her determined battle against acne, she spent \$169 on a Clarisonic electric face brush made by beauty giant **L'Oréal**. Her morning routine



includes an herbal gel cleanser, cucumber toner, and avocado eye cream, all made by the French company. Su doesn't live in L'Oréal's beauty-obsessed hometown of Paris. She's an executive at an advertising firm in Shanghai. "Chinese people place a huge emphasis on beauty and skin care as they are especially afraid of aging," she explains, using, perhaps, a broad brush.

To win customers like Su, more than 260 scientists work in L'Oréal's research center in Shanghai, tailoring products from lipsticks to shampoos for Chinese buyers. Among their latest: a cosmetic balm for Chinese men looking to mask face blemishes and skin serums made from traditional herbal remedies such as Cordyceps, a parasitic mushroom.

The world's largest cosmetics maker aims to pare **Procter & Gamble's** lead in China, where the market for beauty and personal-care products is estimated to reach \$34 billion this year, according to researcher Euromonitor International. L'Oréal is counting on lotions encompassing traditional Chinese herbal remedies, as well as products targeted at China's men, a fast-growing part of the market. That strategy will help the company boost China sales more than 10 percent in 2013, from 12.05 billion yuan (\$1.9 billion) last year, says China Chief Executive Officer Alexis Perakis-Valat. "L'Oréal has become a formidable competitor for Procter & Gamble in skin care," Oru Mohiuddin, a senior analyst at Euromonitor, says in an e-mail. "Not just has L'Oréal approached China from vari-

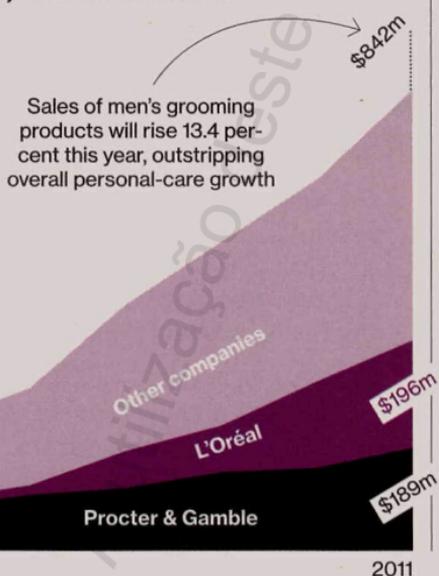
ous angles, including pricing and retail coverage, it also strived to make the brands more customized and effective." The maker of brands including Lancôme and Biotherm has seen its share of China's beauty and personal-care market rise to 11 percent in 2011, from 9 percent in 2008, according to the most recent data available from Euromonitor. P&G, which owns Olay and Gillette, lost 1.6 percentage points, to 15.8 percent in 2011. L'Oréal is already ahead in skin care, with a 15 percent share in 2012 vs. less than 10 percent for P&G.

In an e-mailed statement, P&G says its overall China business expanded about 50 percent in the past three years and that it continues to grow through new categories and innovation in existing ones. P&G chose China, its second-largest market globally, to launch its new Oceana skin-care brand in January.

China, which provides about 6 percent of L'Oréal's annual revenue of €22.5 billion (\$29 billion), has become especially important to the company as consumer spending in Europe has slowed. L'Oréal benefited in China from the 2009 introduction of its Kiehl's skin-care brand, which drew consumers looking for mid-priced products, according to Paul French, China market strategist at Mintel Group. "In China, for a long time you just had your high and low end," says French. "Kiehl's, along with Korea's **Face Shop** group and **L'Occitane**, really opened up the mid-market range."

In 2004, L'Oréal bought the local Yue-Sai Cosmetics brand, which uses Chinese herbs in its creams. Sales of the line rose more than 20 percent last year as buyers snapped up items such as a 50-milliliter jar of Youth Preserving Moisturizer, made with ganoderma fungi, for 210 yuan. The company hopes to expand Yue-Sai this year by boosting sales through online Chinese retailers such as Tmall. The brand also plans to launch a customized skin serum this year. Trained staffers will chat with customers at store counters and analyze skin types to concoct a personalized moisturizer with ginseng, Cordyceps, and white fungus. As "beauty is less and less one size fits all," says Perakis-Valat. "You have to have an answer for very different needs." —Liza Lin

For Beauty Companies in China, It's a Man's World



The bottom line L'Oréal is using traditional Chinese ingredients to grab share in a beauty and personal-care market expected to hit \$34 billion in 2013.