

FRAGRANCE AND PERSONAL CARE

Why beauty bricks-and-mortar is thriving in China

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Offline beauty sales are peaking now that China's online buyers are back at brick-and-mortar chain stores. But can local beauty retailers seize the moment? Image credit: Perfect Diary

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Chinese cosmetic industry insiders are busy this year, even though **COVID-19** has disrupted business as usual. Among them, offline beauty retailers have seen an unexpected peak, as online buyers have started pouring back into bricks-and-mortar chain stores to experience hands-on shopping journeys.

According to a Morgan Stanley 2019 China beauty products growth report, China's share of the global beauty market will increase by as much as 66 percent over the next five years, representing a sales jump of approximately \$38 billion. That is nearly half of all global beauty growth. And with new international retail cosmetics chains popping up all over China, local bricks-and-mortar retailers are now looking for their own moment.

Who is in the game

Will there be a promising future for these newcomers to the Chinese beauty market? The lengthy lines and crowds outside Harmay Beijing and The Colorist in Guangzhou confirm that there most likely will be.

These two are currently the most popular beauty chain stores in China. Harmay, which started in 2010 as an e-sales company on Taobao.com, unveiled its third location in 2019 a massive well-designed store in Beijing after previously launching a Shanghai and a Hong Kong store.

Since its opening, Harmay Beijing has been rated the top beauty retail store in the city, both on social media and on the ecommerce platforms Xiaohongshu and Douyin.

The other star is The Colorist, which is run by KK Group (Guangdong Kuaike E-Commerce) and opened its first two stores simultaneously in Guangzhou and Shenzhen in October of 2019.

Since then, these stores have consistently been crowded with over 15,000 visitors daily. This incredible level of popularity has extended across China to Beijing, Changsha, and elsewhere.

By April of 2020, The Colorist had expanded to more than 60 stores in 20 cities nationwide.

Other offline domestic players such as WOW COLOUR, Perfect Dairy, G Beauty, and Parkson PLAYUP have also been riding the current beauty industry wave in China by changing their business models.

Some popular techniques involve making more brand collections available in-store as well as copying "fast fashion" by changing in-store merchandising more often.

So far, these chains, which are heavily backed by famous Chinese tycoons, have made all the right moves in China's new "beauty-driven economy."

On the other side, traditional retail chains that have been hit hard by COVID-19 are feeling pressure from these new local players.

Sephora, which has operated in China for 14 years and owns 230 stores across the country, saw a 25 percent sales decrease over the first quarter of 2020.

SaSa, the renowned chain of Hong Kong beauty specialty stores, had to close 20 percent of its Hong Kong stores to fund its mainland expansion.

Another established drug store brand, Watson, only saw a 2 percent increase last year after losing much of its younger customers to hipper brands.

Meanwhile, Japanese cosmetic retailer Isetan Beauty closed its physical store in Shanghai, and the U.K. beauty chain Space NK failed to survive the pandemic, announcing its exit from China in April.

Seize the momentum

"I started to realize that the cost of operating Harmay online had actually been increasing since 2015, especially in China, where social media marketing plays a key role if you want to make profits," said Jason Ju, cofounder of Harmay. "The competition in the beauty industry is fierce, so Harmay had to create something new."

By transferring what Harmay created online quality store design, customer services, limited collections, and omnichannel retailing to its offline locations, the brand garnered massive social buzz along with sales.

Since social media KOL/KOC marketing dominates the Chinese market, Harmay's offline sites now offer refreshing hands-on shopping experiences to its customers.

When it comes to skincare and color cosmetics, young customers want to personally experience them by trying on, smelling, and feeling the products. They are not a generation that just obeys big stars and brand slogans. They want to decide how to be stylish on their own.

As a way to distinguish themselves from online sellers, brands are designing their physical beauty stores to encourage virality on social media and initiate word-of-mouth tactics via real consumers.

For example, The Colorist, with a stock of more than 6,000 SKUs, has adopted a more open floor plan with bright interiors at its stores. Its rainbow-colored decor has become a selfie spot for customers, who then post such photos on Weibo, WeChat, or other Chinese social media platforms.

Harmay, according to its creative team, is designed to look like a behind-the-scenes view of its online store, as the products and the distribution/delivery processing areas are out where the consumers can engage with them.

The bare concrete ceiling, steel shelves and fluorescent lamps mimic the atmosphere of a beauty factory, leaving customers feeling like their shopping time was both active and creative.

"The routine" stays but expands

After visiting several cosmetic stores across Beijing, *Jing Daily* found that around two-thirds of customers said they would not cut their beauty routines, even during a pandemic.

Global growth may face a devastating slowdown during this time, but the Chinese beauty market continues to show surprising resilience.

Thanks to Chinese demographic changes, younger consumers ages 17-25 are spending more money at an earlier age. They have different consumption habits compared to older cosmetics enthusiasts, including earlier introductions to skincare shopping, added steps to skincare and cosmetics routines, and an attitude that makeup is essential for social interactions.

According to Joyce Chen, who has been helping Western brands market in China for over five years, "around 75

percent of **Gen-Z customers** are proactively trying new, niche beauty brands, and even very junior customers are bold [enough] to buy something luxurious."

Ms. Chen confirmed that social media is the most powerful influence on consumer purchasing decisions, and offline cosmetic transaction data shows that young people are, indeed, guided by virtual marketing campaigns.

After traditional department stores and the **ecommerce** craze, it is safe to say that offline retail chains are now filling a role as the beauty market's "third stop." This is a trend that has been shaped by the times and China's new economy.

Beauty consumers in China are better off financially than they were in the past and have more disposable income, so now they buy luxury beauty brands right away rather than start by buying domestic, entry-level products.

That has led many retailers to display their most **luxurious brands** in prominent shifts instead of playing it safe. And since China's middle class is expected to double in population over the not-to-distant future, the country's luxury beauty consumption should only continue to expand.

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