

FRAGRANCE AND PERSONAL CARE

## Is Shanghai the new beauty capital?

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Shanghai is now the largest port of entry for beauty products, up 17.9 percent in 2020. Image credit: Sephora's Weibo

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China is the world's second-largest **beauty and personal care product market** after the United States. Today it has a value of \$38.6 billion.

As innovation grows post-pandemic, a number of initiatives, physical store openings and digital innovations located in Shanghai suggest the city's growing allure to beauty leaders. *Jing Daily* asks, can it become a beauty capital?

Although it lags behind America's \$56 billion beauty segment, China's cosmetics market is **particularly buoyant** and dynamic.

Beauty also weathered the pandemic surprisingly well and there is little doubt it offers a lucrative growth opportunity with little sign of slowing.

Due to the rising demand for **beauty and skincare** products, it is expected to record a value of \$87.64 billion by 2025.

This year, more beauty companies and divisions, from LVMH to Tmall, have been counting Shanghai as a cosmopolitan and glamorous destination.

Furthermore, it is home to one of China's oldest beauty brands, Pechoin, and has attracted newer local names such as **Chando**, The Herborist and Forest Cabin too. Forest Cabin offers cool alternatives to Western leaders, especially Gen Z consumers.

Given China's explosive beauty market and Shanghai's prominence on the beauty scene, it is time to see if the "Magic city" or is on track to take on world leaders such as Seoul and Tokyo as a beauty capital? *Jing Daily* takes a look at its potential.

### China's dynamic beauty landscape

In recent years, a number of factors have created what is fast becoming an opportune moment for C-beauty: from rapid urbanization to online penetration, female population growth, China's beauty ecosystem could not be healthier.

The latest retail data released by the National Bureau of Statistics showed that retail sales of cosmetics from January

to April was \$18.92 billion alone an increase of 35.3 percent year-on-year.

Meanwhile, interest from men in cosmetics has exploded and the **male facial skincare market** was forecast to hit \$1.90 billion in 2020.

Research firm Mintel predicted this would expand 50 percent to reach 18.5 billion yuan in 2025.

*Reuters* found that in 2020, 10 new Chinese male beauty brands emerged.

Overall, the number of licensed cosmetic enterprises in China exceeded 5,400 as of February 2021.

Despite the growth of C-beauty companies, international names are still topping consumers' wish lists though, especially Japanese companies.

According to the Japan External Trade Organization, in 2020, China's imports of Japanese cosmetics topped the list, increasing by more than 30 percent to around **\$4.3 billion**. This saw J-beauty far surpass the \$3.3 billion in beauty products taken by South Korea as well as the U.S. and France also major suppliers.

Shanghai: a draw for local and international names

When the Shiseido Group decided to open its **first beauty innovation hub** outside of Japan, it chose Shanghai and since then, the city's allure to companies, local and international, has continued to grow post-pandemic.

This year, Tmall **announced plans** to set up a new center in Shanghai for its beauty division. This hub will serve as an industrial base for ecommerce packaging and dispatch for the group's cosmetics and perfume products.

Although headquartered in Guangzhou, beauty unicorn Yatsen Global recently set up a retail division in Shanghai. It has also signed a strategic collaboration with the U.S. manufacturer Sensient to jointly establish Innovative Color Laboratories with operations in Shanghai, Guangzhou, and Singapore.

Also planting a flag in the city, LVMH has announced a base there too this time for logistics.

By the end of 2022, the luxury conglomerate plans to build a beauty ecommerce hub for packing and dispatching at a **cost of \$154 million**.

The L'Oral China-backed Big Bang Beauty Tech Startup Challenge 2021 launched there to promote beauty entrepreneurship. It drew more than 500 startups last year, with 10 selected and incubated.

In March, Nivea's newly opened innovation center will support start-ups in the areas of R&D, marketing and office space.

What the city offers

During the pandemic, beauty's retail gains ran the gamut from pioneering digital efforts to the lucrative world of duty-free. These efforts have not slowed during 2021.

Eager to become a new retail pioneer, French cosmetics giant L'Oral recently tapped the city as home for its **first-ever concept store** in an omnichannel tie-up with fashion's undisputed capital, Paris.

Furthermore, two brands owned by the group will also open their first Asian stores in Shanghai soon.

Meanwhile, the Shanghai-based brand acceleration group USHOPAL recently bagged \$100 million in a Series D round of financing.

Part of this sees it leveraging China's duty-free roll out to help domestic names including Bonnie&Clyde to grow offline and keep innovating. With USHOPAL's help, the retailer (now with six brand stores) plans to build a special Bonnie&Clyde zone in Shanghai's CNSC mall, **bringing niche, cruelty free brands** to China's duty-free space.

According to beauty expert Dao Nguyen, there is ambition to create a "Yangtze river delta beauty area" comparable to what has been founded in its closest competitor for the accolade, Guangzhou.

"Shanghai is now the largest port of entry for beauty products, up 17.9 percent in 2020," Ms. Nguyen tells *Jing Daily*.

"The purchase consumption is higher, too," she said. "Per capita disposable income of Shanghai residents was 72,232 yuan in that year."

The proposed "beauty area" she refers to would see it join Hangzhou, Suzhou and Huzhou a move which would undoubtedly help to extend Shanghai's influence both in China's internal sector as well as around the world too.

Allure of beauty content creators

USHOPAL's other major focus will be to build luxury brand positioning via creative content on new media streams and platforms yet another vibrant area for Shanghai.

In May, LVMH held its first offline public recruitment event in the city to seek out "new luxury retail experts and newcomers" which now includes beauty experts, influencers and livestreamers such as ecommerce emperor, Li Jiaqi.

According to Ms. Nguyen, Li Jiaqi, who hosts sessions from his studio on a daily basis, is not only a mere livestreamer, but a "full powerhouse inventing new consumer experiences" and business models.

Indeed the "Lipstick King" is at the forefront of an extremely agile and disruptive consumer-centric focus that is energizing and inspiring global names.

"**Li's Never's Family** has been the core idea to cross collaborate with Fresh, Darphin, The Beast, and a host of other local brands," Ms. Nguyen said. "They create installations conceived as giant playgrounds, it's very inventive, very social media friendly, and therefore a win-win consumer-brand experience."

Can it beat out closest rival Guangzhou?

Shanghai has glamor in spades, but it lacks the manufacturing and **supply chain resources** of Guangzhou. Therefore, industrial bases such as Guangzhou and **Shenzhen** will remain key areas for Chinese brands to set up shop around.

In terms of the number of licensed cosmetic enterprises in China, the Guangdong province is a clear winner, with 2,997, accounting for more than 55 percent.

While towering over Shanghai's measly 227, the city does have its breakout beauty startups such as the skincare company UNISKIN, which recently completed a round of financing worth 100 million yuan.

Finally, let us not forget that more than a decade ago the global cosmetic mammoth Procter & Gamble settled into Guangzhou. Next to its massive production facilities, it created a campus expressly to nurture talents.

So far, P&G has birthed the founders of both **Perfect Diary** and HomeFacialPro, two new beauty brands that have revolutionized C-beauty.

Going forward, let us see if LVMH, **Shiseido** and rising local beauty stars can work their magic for Shanghai. The race is on.

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