



# **INTERNATIONAL MARKETING STRATEGY FOR HERBORIST**

**Thesis**

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Abstract  <p>Chinese cosmetics industry is a booming industry and it is also one of the fastest growing industries in China. After China has joined WTO, with the tariff reduction, the tendency of the Chinese cosmetic market internationalization is inevitable. Herborist is a typical Chinese domestic cosmetics company. Now Herborist tries to find new customers and build core competitiveness. As they have already entered the Europe market to some extent, it is time for them to focus on international marketing strategies for the European market.</p> <p>The aim of this thesis project was to provide valuable marketing strategy for Herborist's European market operations and to help the company to expand its operation to Europe.</p> <p>The study is mainly based on quantitative research. The data collection was carried out by a questionnaire. Qualitative research was carried out in the form of an interview with Herborist's manager to find out his suggestion towards this thesis and this belongs to qualitative research. In addition, secondary data taken from the internet and literature has been used as well.</p> <p>The results show that Herborist can choose marketing channel strategy as their main marketing strategy. Herborist should integrate different marketing communication tools and find out the best way to expand their European market.</p>		
Keywords international marketing strategy, Herborist, cosmetics, marketing channels		
Note		

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## 1 INTRODUCTION

In the process of Chinese market economy development, cosmetics industry is a booming industry and it is also one of the fastest growing industries in China. In the early 80's, the national sales of the cosmetics industry was only 2 million Yuan, but this figure had grown to 700 million Yuan in 2007. In 2010, this figure was more than 1000 billion Yuan. In this huge market potential competition, Chinese domestic cosmetic brands are obviously losing the battle. There are only a few domestic brands against foreign brands on Chinese markets. This is the painful experience of the entire Chinese cosmetic industry. After China has joined WTO, due to the tariff reduction, the internationalization of the Chinese cosmetic market is inevitable. By the end of 2007, almost entire world current mainstream cosmetics brands entered into Chinese market, which led to a fierce competition between international brands and domestic brands. (Baidu Baike 2011)

Faced with this situation, more and more Chinese domestic cosmetic companies have realized that it is essential for them to depend on their own unique cultural features, differentiated market position, expanding the market and finally achieve internationalization. Herborist is one of the typical examples.

At present, Herborist has more and more consumers all over China. Most of its consumers agree that its products are not only useful but have reasonable prices. On the other hand, cosmetics as daily used products have more opportunities. In addition, the most attractive factor is that their products have more features than other brands. As far as we know herbal medicine is very traditional and unique in China. Currently, more and more European consumers are interested in herbal medicine and this tendency provides a big chance for Herborist.

Because of the overproduction and excess capacity, Herborist needs to find new

customers and develop core competitiveness. As they have already entered the European market, it is time for the company to focus on deep consideration on international marketing strategies for European market.

It is difficult for a marketer to do business in a foreign market, especially with large differences in cultures, policies and so on. In order to get success, they require a comprehensive knowledge about this target market. In this thesis, the primary objective is to find out a reasonable method to help Herborist achieve internationalization. It can be formulated as a question: What is a good European marketing strategy for Herborist? In this thesis, the main issue is the analysis of Herborist's marketing channel strategy.

The aim of this thesis project was to provide valuable marketing strategy for Herborist's European market operations and to help the company to expand its operation to Europe.

The study is mainly based on quantitative research. The data collection was carried out by a questionnaire. Qualitative research was carried out in the form of an interview with Herborist's manager to find out his suggestion towards this thesis and this belongs to qualitative research. In addition, secondary data taken from the internet and literature has been used as well.

Questionnaire analysis is the main research method. The questionnaire was used to find out consumers' opinions on Chinese herbal medicine cosmetics, as well as their purchasing intentions and buying habits to figure out what is the best marketing plan for Herborist.



## **2 CHINESE AND EUROPEAN COSMETIC MARKETS**

Chinese cosmetics market is known as “beautiful economy”. After 20 years repaid development, Chinese cosmetic market has already obtained unprecedented achievement. Chinese cosmetic market is the largest emerging market in the world. In last 20 years, Chinese cosmetic industry grew from small to big, from weak to strong, and gradually achieved technological superiority, and began to take shape. More and more cosmetic operations and cosmetic products have entered the market. Chinese cosmetic industry is developing rapidly. Therefore, the new consumption has become a popular issue.

### **2.1 Chinese Cosmetics Market**

Because there are no more limitations either for import or export of cosmetics, international cosmetics are gaining speed to expand in increasing their market share. For this reason, local brands are suffering tremendous impact from the outside. In Chinese cosmetic market, foreign-funded enterprises or joint ventures account for the most of the market share. But Chinese cosmetics companies only can introduce medium cheap products through the joint venture to meet the needs of Chinese consumers. This is a worrying reality. Although Chinese cosmetics market has double-digit growth every year, the international brands have a leading position. According to global market research organization Euromonitor International, the top five brands at cosmetic sales are still L'Oreal, Olay, Opal Levin, Shiseido and Lancôme. The high-end cosmetic market owns the largest sales and profitability. Chinese cosmetic market has basically been dominated by international brands.

When international brands began to extend to secondary and tertiary markets, local brands were facing a survival crisis. With the continuous improvement of the economic level, there is a considerable development of consumption level in

secondary and tertiary cities. International brands depending on the over years' realization for Chinese market, have already perceived this great business opportunity. In recent years, international brands have begun to focus on low-end market development which was originally seen as a life support of market by national brands.

With China's accession to WTO, the impact of globalization has become more evident in the brand-led and focuses on high value-added cosmetics, skin care and other areas' international companies such as Shiseido, L'Oreal, and Estee Lauder have a significant advantage. However, the emerging of Da Bao, Long Liqi, Herborist and a number of other local enterprises bring a ray of hope for Chinese cosmetics. (Baidu Baike 2011)

## **2.2 European Cosmetics Market**

European cosmetics industry was established in the last century and so far it has gone through about a hundred years of development. Today, the EU Cosmetics has become the world leader in the cosmetics industry and many world's leading cosmetics enterprises are emerged in EU. Furthermore there are many world-famous brands which have appealed to consumers and gained their trust.

European cosmetics market is the largest cosmetics market in the world. According to the COLIPA data of 2005, EU market sales were 34.3 billion euros in 2004, the United States, Japan were 25.7 billion and 11.9 billion euros respectively. The annual export volume of EU was 7 billion euro in 2004. (Belle Baby 2010)

When segmenting EU market share, from the national point of view, France, Germany, Britain, Italy, Spain, accounted for about 50 percent of EU market share. From product category perspective, the main products are toiletries, hair care

products, skin care products, perfume products and beauty repair products. (Belle Baby 2010)

According to the global market research organization Euromonitor International, L'Oreal SA's sales and profits reached a historical record in 2000, being about 4 billion U.S. dollars. In addition, Estee Lauder Company, Procter & Gamble Company, Revlon Inc. and Avon Products Inc. were the world's top five. Shiseido Company Limited, Coty Inc., Kanebo Limited, Kose Company Limited and Chanel SA ranked sixth to tenth respectively. In the total sales amount of 24.4 billion dollars' global market, the sales of the top ten giant cosmetic industries totalled 15.15 billion dollars. (Belle Baby 2010)

According to the Euromonitor International research report, the cosmetics companies ranking from eleventh to the twentieth in 2000 were LVMH, The Body Shop PLC, Mary Kay Inc., Kao Corp., Yves Rocher SA, Pola Cosmetics Inc., Beiersdorf AG, Oriflame International SA, Alticor Inc. and the Boots Company PLC. Their sales accounted for 11 percent of the global market. The sales of the world top twenty cosmetics companies accounted for about 73 percent of total sales of worldwide market share.

### 3 HERBORIST

Herborist was established in 1998, in Shanghai, China. Shanghai Jahwa is the first listed company in Chinese domestic cosmetics industry which was established one hundred years ago in Shanghai. Jahwa has international standard research and development team and brand management capability. Jahwa is the leader of herbal medicine personal care brand in the world and they own the strongest production capacity in China. Jahwa uses differentiation branding strategy and has created lots of famous Chinese brands to meet the increasing competition. The brands include Liushen, Herborist, Maxam, Chinfie and GF, etc. and the products include skincare products, cosmetics, and perfume etc. (Jahwa 2010)

Herborist is a wholly-owned subsidiary of Jahwa United Co., Ltd. inspired by a million years' herbal beauty culture. It is the first full sense Chinese herbal care brand. With the combination of typical Chinese beauty and modern biological technology, Herborist has gradually achieved a "natural and balanced" brand identify and created herbal beauty care legend. Through applying Chinese medicine theory skin issue and modern brightening activating technology, the company has created a new trend of herbal beauty care. Enjoy the natural green gifts, and return green beauty to nature. Since Herborist's inception, it has been advocating the concept of green brand, and raised "keep the beauty of the earth" green fashion statement. Herborist's target group are female customers of the age from 25 to 35 years with special demand for skincare. Herborist's main products include skin care products, natural skin care, cosmetics and acne treatment etc. (Herborist 2010)

### **3.1 Development of the Company**

If one company wants to get more competitiveness, they must figure out effective development tactics. Herborist has a professional development team of its own. The professional development team includes customer relationship management, business development group and the research for the new products.

#### **Departmentalization**

Jahwa United Co., Ltd gives Herborist great freedom and allows Herborist to control the power of marketing, customer service and human resources, and Jahwa only controls a part of the financial affairs. It is in this relatively relaxed environment where Herborist developed the most detailed Marketing Department, the purest Brand Manager and the most comprehensive CRM system. Currently their Marketing Department is divided into Brand Department, Product Department, CRM Division and Media Communications Department. The reason why they have these different departments division is that along with brand expansion of the market segments, they need to meet new requirements and add some areas. For example, new listing of Herborist products plays a decisive role on the full year's sales growth, so Herborist dedicated Product Development to improve the effectiveness. Herborist's brand management framework is very detailed; part of the personnel is responsible for brand image management, and part of it is responsible for planning brand activities, while the rest are responsible for brand core elements management and maintain loyal customers. In the last year, they also set up Herborist's chief designer, which is a separate role from brand manager. (Herborist 2011)

#### **Customer Relationship Management**

Regarding to the maintenance of customer relations, establishing Herborist membership is a brilliant idea. The feedback questionnaires analysis from customer relationship management database Herborist shows that a substantial proportion of customers who have purchased international brand cosmetics would be their

customers with high degree of brand loyalty. In order to enhance the viscosity with these customers, Herborist decided to develop membership, through internet, direct mail, magazines, regular meetings, exchange points and Spa etc. to maintain customers' brand loyalty. Herborist's research results show that in sale of best-selling whitening and body care products, more than 50 percent of sales came from their members. (Herborist 2011)

### **Sales Channel**

Herborist completely abandoned traditional channels such as supermarkets. In August 1995, Herborist opened its first exclusive store at the Hong Kong Plaza. Then Herborist established its first Hong-Kong-based exclusive store at Mongkok (see figure 2), signifying the first step of global operation. On 18th July, the second branch store was established in Causeway Bay, Hong Kong, and Shanghai. Herborist has two types of single-store model, in order to ensure their first market. In other cities, they implement franchise system. (Herborist 2010)

### **New Product Development**

As a high-end cosmetics brand, Herborist must be able to continue to provide new products. Jahwa's research and development center has provided a powerful support for Herborist. Before a Herborist product enters the market, it often needs several processes, firstly is the innovation concept, the innovation concept may come from international competitors' actions, technical personnel's scientific research such as the use of new material, and consumers' new demands report. Based on these three sources as well as cost, feasibility, assessment standards for clear product description, with the Research Department's R & D in a limited time, and finally put into production. Usually these processes take almost one year. (Herborist 2010)

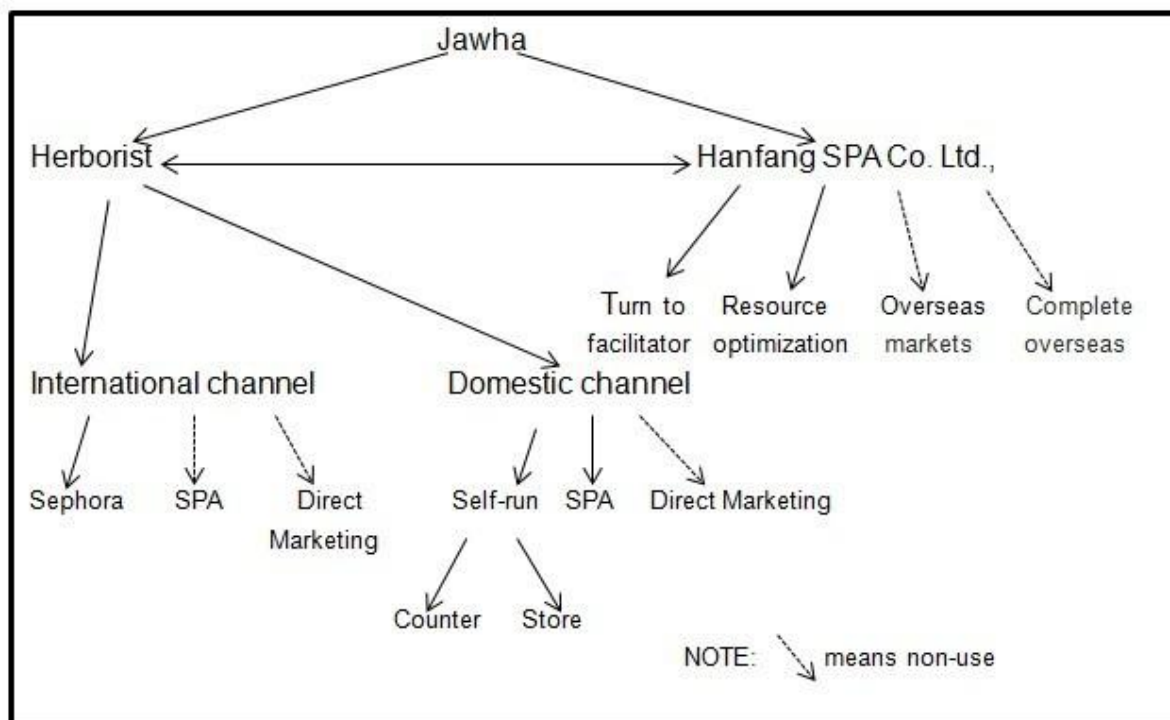


Figure 1. Herborist's Channel mode (Marketing Manager Huang Zhen, Interview January 2011).

Dec. 1995	<ul style="list-style-type: none"> <li>•The research on Herborist was formally initiated. Before this, the R&amp;D personnel of Shanghai Jahwa United Company Ltd had went to Shennongjia to investigate in local herbal resources so as to make preparations for the development of Herborist.</li> </ul>
Aug. 1995	<ul style="list-style-type: none"> <li>•Herborist opened its first exclusive store at the Hongkong Plaza, Shanghai, introducing to the market its brand-new beauty-care concepts based on the "balance theory" of traditional Chinese herbal medicine.</li> </ul>
Jan. 2000	<ul style="list-style-type: none"> <li>•The nationwide franchise system was launched and the sales mode of Herbotist was expanded.</li> </ul>
Jul. 2000	<ul style="list-style-type: none"> <li>•Upon launching into the Hong Kong market, Herborist established its first Hong-Kong -based exclusive store at Mongkok, signifying the first step of global operation. On Jul,18, the second branch store was established in Causeway Bay, Hong Kong.</li> </ul>
Sep. 2002	<ul style="list-style-type: none"> <li>•Herborist SPA opened, making professional and innovative herbal beauty-care services accessible to more beauty-conscious female customers.</li> </ul>
Dec. 2007	<ul style="list-style-type: none"> <li>•Herborist Herbal Medicine Research Institute was founded. It is dedicated to promoting time-honored Chinese prescriptions by means of the state-of-the-art technologies, and introducing traditional Chinese culture to the international mainstream consumer-goods industry.</li> </ul>
2008	<ul style="list-style-type: none"> <li>•Herborist succeeded in its entry into the cosmetics market of Paris, which acted as a springboard for introducing oriental traditional culture to the entire world.</li> </ul>
Sep. 2008	<ul style="list-style-type: none"> <li>•Herborist products were officially launched in the Sephora flagship store located in Avenue des champs Elysees, Pairs. A French tour for Chinese media was also organized.</li> </ul>
Oct. 2008	<ul style="list-style-type: none"> <li>•Herborist fomally entered Holland market and initiate the China tour for European media.</li> </ul>
2009	<ul style="list-style-type: none"> <li>•At the 11th anniversary, Herborist received a new born of the brand. Then new brand image and new packaging made Herborist more fashion and elegant. Meanwhile, Herborist advocated the idea of " Cultivate Green", to make people"Thinging Green, Acting Green".</li> </ul>
2010	<ul style="list-style-type: none"> <li>•The offical website of Herborist was published, bring "The E-commerce Age"of the brand and making more women get convenient and professional herbal care.</li> </ul>

Figure 2. The Development of Herborist (Herborist 2010).



### 3.2 Brand Features

Competitive power is essential for a company as well as its products. Brand feature is the most important thing toward competitive power. Herborist has some strong brand features which play an important role in the achievement of success in the domestic cosmetic market.

#### a) Relatively strong capital base

Strong company power is the basis to capture the market. By 2007, the world's top ten cosmetics companies had entered Chinese market. Before these international cosmetics entered into Chinese market, they had built strong market foundation in other countries with strong corporate strength and capital base. They came to the Chinese market and led Chinese cosmetics market to repaid development and raised the entire Chinese cosmetics industry to a new level. However, the small size local cosmetics industries because of capital shortage, their sales, research and development investment cannot be extended and directly affect sustainable development. So they have faced a serious crisis of survival. Chinese cosmetics industry has begun to form a powerful strength that is needed to support the business development industry trend. (Alibaba 2008)

So far, due to late start of the cosmetics market, there are only a few cosmetics companies that have real strength. Jahwa created "Herborist" became a leader in the domestic cosmetics industry. And there are a lot of companies which are represented by Chinese herbal medicine relying on the Chinese rich resources, committed to the development and use of Chinese herbal medicine industry. They are showing strong business strength and market competitiveness and thus have won the capital in Chinese cosmetics market.

b) More prominent R & D levels and the advantages

Technology is the primary productive force and this is relevant to cosmetics industry also. Current market reality is that the cosmetics without technology are in a weak market competition position. Science and technology, research and development have become the dominant part of the cosmetics market competition.

Currently, the Chinese cosmetics companies are generally in a low level regarding scientific research, low-tech products and development are still in imitation phase. However, without outstanding R & D strengths will not be able to ensure long-term rapid development. So some domestic cosmetics companies have started to establish their own R & D departments to enhance their own R & D capability. Jahwa and Shanghai Medical University together with other five universities have established joint laboratories or research centres. Herborist has the products based their own emerging technologies, and these activities show a great development potential. (Alibaba 2008)

c) Expressing cultural advantages

In recent years, Chinese consumers concern about the national culture and traditional Chinese medicine has become an important issue. In cosmetics industry, "natural, green" products are considered to be the most healthy consumer choice. Herbal medicine has been re-recognized by consumers as a consumer fashion. Jahwa used 10 years to build high-end cosmetics brand Herborist. Herborist differentiated its product characteristics through creates high-end "herbal personal care experts". Nowadays, Herborist is a typical in the high-end cosmetics market.

In the current cosmetics market, products without characteristics are very difficult to get success. Herborist through use Chinese culture to achieve success and opened a new way to extend local cosmetics companies. (Alibaba 2008)

d) Insist long-term brand development strategy

In the cosmetics industry, brand is fundamental for survival and development. When consumers choose cosmetics, they often choose a more well-known brand if the products are in the same price and same category. In consumers' opinion, brands represent a more reliable quality and better service. Herborist determined high-end positioning in the market from the beginning, and thus formed a complete set of brand-building system, use the herbal beauty theory concept as core characteristic, with "store + Spa + counter" trinity marketing network, member activities and member publications as the carrier to establish customer relationships. They also combined fresh and natural factors, highly China culture and advertising style. These factors all contributed to the fact that Herborist's herbal high-end cosmetics brand gained a considerable success. (Herborist 2010)

e) Quality benefit consumers

Product quality plays an important role during enterprise's development process. Especially in the cosmetics industry, consumers are concerned about the quality of products. After the domestic cosmetics quality crisis, some local cosmetics companies recognized that good product quality is the essence of sustainable development and growth. Herborist insists on quality first as a business concept and introduced ISO9001 quality management system. Furthermore, the company established a professional quality inspection department and introduced strict raw material purchasing and product testing processes.

## **4 INTERNATIONAL MARKET ENTRY AND DEVELOPMENT**

When a firm plans to enter into the foreign markets, they have to think about some comprehensive issues in order to choose the best way and make the correct decision.

### **4.1 Internationalization Drivers**

There are many factors which create an attractive condition for development of international strategy and resource allocation. (Czinkota and Ronkainen 2009, 186)

These factors can be concluded as follows:

- 1) Through market diversification, they are seeking for more growth opportunities.
- 2) They can earn higher margins and profits.
- 3) Gain new ideas about products, services, and business methods and achieve innovation.
- 4) They can better serve key and potential customers whom they have relocated abroad.
- 5) To get more supply sources and gain benefit from global sourcing advantages.
- 6) Achieve lower-cost or better-value factors of production.
- 7) They can develop economies of scales in sourcing, production, marketing and research and development.
- 8) Take competition advantage in foreign market or remain core competition in the home market. (Salli 2011)

## **4.2 International Market Segmentation**

International market segmentation means that enterprises subdivide the whole international market into several sub-markets with different demands according to certain standards. The consumers of these sub-markets have same or similar demand characteristics. They can select one or more from these sub-markets as their international target markets. The purpose of market segmentation is to increase the accuracy of corporate strategic objectives. With the premise of limited resources, company can through product planning, distribution channels, pricing strategies and other marketing mix meet the needs of the sub-market and seek for maximizing the profit. International market segmentation can be divided into macro segmentation and micro segmentation. (EENI 2011)

### **Macro segmentation**

A company based on certain standards, such as economy, culture, geography, etc. subdivides the whole international market into several sub-markets, and each sub-market with the similar marketing environment. The company can select one group or several countries as their target market. Macro segmentation is the bases of micro segmentation. Because only after the company has decided which countries to enter, they can do a further segmentation in these certain countries. The international market segmentation standards include geographical standard, economic standard, cultural standards and a combination method. There are two problems when doing macro segmentation: the first one is to determine the basic steps of macro subdivision or process. The second one is to determine according to which standards the international market is subdivided. (USC Marshall 2011)

### **Micro segmentation**

Consumers have different demands in a certain foreign market and it is impossible to meet all these demands. The company has to subdivide this certain foreign market into several sub-markets, then satisfy the needs of some certain sub-markets.

The micro segmentation standards include geographical environment of consumer markets, population, consumer psychology and purchase situation.

An effective international market segmentation should have four characteristics, namely measurability, accessibility, substantiality and action—ability. (USC Marshall 2011)

### **4.3 Choosing Target Markets**

Target market selection process means that company bases on international market segmentation as well as several standards to evaluate and compare different submarkets and finally selects appropriate countries and target customer types.

Target market selection is a very important process. The smart selection can help company to reduce their costs and to create core competitiveness in international market. It is essential for company to carefully choose international market selection approach because of the vast diversity in international markets. At the international level, there are lots of differences in income, culture and politics. International marketer must try to find out meaningful similarities between different markets and this can help them standardize strategies, reduce costs and maximize advantage. (Bradley 1995, 269)

There are five basic processes for the company to select the target market:

- 1) Define the selection standards, such as market size, competition situation, operating cost, and business goal.
- 2) Define the relation between the selection standards and appropriate variables. There will be some appropriate variables when a company enters a foreign market. Even though company has selection standards, the selection standards cannot be fixed. So company should depend on the market is actual situation to adjust their selection standards.

- 3) Define the importance of each standard and variable. Company must take care of each standard and variable. Because each of them may play an important role when a company enters foreign market.
- 4) Evaluate each market and build hierarchy relationship according to risks, cooperation, and barrier situation.
- 5) Deeper research on the most potential markets. It is necessary for company to do a deeper research in potential markets and then decide which markets are the best for them. (USC Marshall 2011)

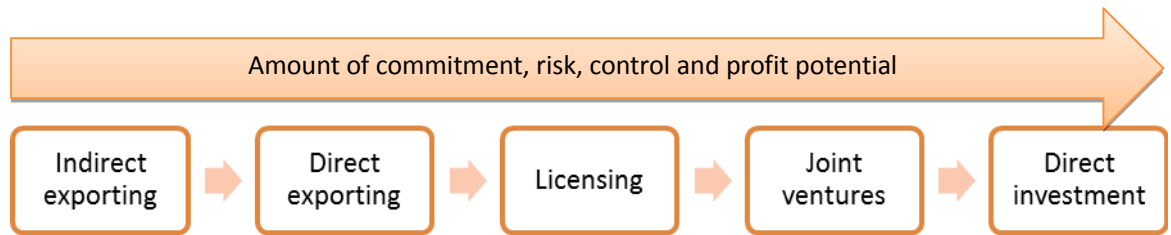
The target market selection criterias can be listed as follows:

- 1) Segment size and growth potential: company can identify segment size and growth potential through estimates of existing and potential or not saturated markets.
- 2) Competition situation: including whether have powerful competitors, new entrants facing threats, substitute competition and potential competition.
- 3) Consistency with company goal and resources: means whether segment markets conform to company's general goal whether can play a competitive advantage and whether company have enough resources condition and operation abilities.
- 4) Operating cost: company should take care of their budget. How much they plan to invest?
- 5) Risks and market access barriers: such as exchange rate risk, political risk and natural disaster risk etc. (USC Marshall 2011)

#### **4.4 International Market Entry Modes**

Firms should determine the best mode to enter the target markets. There are five market-entry strategies to be chosen, namely indirect exporting, direct exporting, licensing, joint ventures and direct investment (Kotler 2000, 374). All these modes all have their own advantages and disadvantages, so the company must consider

carefully and choose the best mode.



*Figure 3. Five Modes of Entry into Foreign Market (Kotler 2000, 374).*

There are three main factors which should be considered when choosing the entry mode:

- 1) Foreign target market conditions: including the target countries' market scale, market competition situation, economic base and policy.
- 2) The company's conditions: including development goals, resources conditions and product characteristics.
- 3) The characteristics of various market entry modes: such as investment scale, the risk degree, control degree, marketing experience and cost, profit level etc.

#### **4.5 Marketing Communication**

Marketing communication is usually utilized to communicate various elements of an organization's offering to the target audience. The offering might be a product or a service, or even organization itself in order to build its reputation (Fill 2009, 4). Organizations use investigation, planning and communication as well as other public relation tools to provide advices and executive services to achieve marketing goals. Marketing communication can help organization remain or promote its market competitive advantage and obtain higher sales profit. Marketing communication participates in customer marketing strategy, including market orientation, research and development, production, sales, channel and after-sales, etc.



Marketing communication is one of the most widely used marketing strategies. The purpose of marketing communication is to inform customers about the product, service as well as their characteristics or to create positive images of the organization or its offerings. Marketing communication can assist consumers in their positive buying decision- making.

There are five main marketing communication tools, namely sales promotion, personnel selling, advertising, public relations and direct marketing.

### **Sales Promotion**

Sales promotion is utilized to deliver information about the organization and their products to persuade or attract consumers to buy in order to achieve the purpose of expand sales. Sale promotion is a kind of means of market competition and it can help to break "buying habits", so it is a good tool for the first purchase. The purpose of sales promotion is to make customers accept products. Essentially, promotion is a kind of communication activity, in the way that marketers (information providers or sender) deliver various kinds of information to one or more target (namely the information receiver, such as the audience, listener, readers, consumers or users, etc.) to affect their attitude and behavior.

The utilization of sales promotion can bring several benefits, such as reduce new product introduction time, motivate consumer to do the first buying, incent consumers to buy again and in that way establish consumption habits, increase sales and drive related products market. (Fill 2009, 538)

### **Personal Selling**

Personal selling refers to selling and marketing products and services through direct interaction with consumers. Personal selling is an important part of marketing and it relies heavily on interpersonal interactions between consumers and sellers to achieve initiate, to develop, and to enhance customer relationships (Ingram 2010, 4).

It can be divided into three basic forms, that is, door-to-door selling, counter selling, meeting selling.

### **Advertising**

Advertising refers to because of specific needs, to delivering information widely to target audience through certain forms of media. Generally speaking, it is important communication between producers, operators and consumers. It is also the main form for the enterprise to occupy market, sell products and provide labor services. The main purpose is to expand economic benefits. (Fill 2009, 483)

Advertising differs from general mass media and publicity activities. There are certain characteristics on advertising:

- 1) Advertising is a kind of communication tool through which the producer or advertiser can deliver certain product information to target consumers.
- 2) Advertising should be paid and it may cost a lot.
- 3) Advertising is a communication activity with persuasion.
- 4) Advertising must be purposeful and it is a continuous activity.
- 5) Advertising not only benefits advertisers but also the audiences. Audiences may receive useful information by advertising. (Fill 2009, 490-493)

### **Public Relations**

Public relations refers to a series of sales promotion activities through which a certain organization can improve social public relations, gain understanding and support from public so that they can establish good organizational image or promote products. Public relation has several characteristics such as emotionality, bidirection, universality, integrity and long-term. (Fill 2009, 565-566)

### **Direct Marketing**

Sellers use direct marketing channels to consumers to deliver and receive goods and services without marketing middlemen. The types of direct marketing include direct mail, telephone directory marketing, interactive TV, internet marketing and

mobile equipment marketing.

A company can get lots of benefits through direct marketing. For the company, it is the most rapid channel for customer service and it can help to deal with the rising labor sales costs. For the consumer, it helps to avoid high driving expenses, traffic jams, parking trouble and time shortages. (Fill 2009, 624-626)

#### **4.6 Risks and Risk Management**

Every developing company has to face risks, but they can not refuse the developing of the company. Company must have a good foreseeable view for the developing, and they must figure out solution for the risks which they may meet. Companies need to create efficient risk control system and capable management to ensure their development.

##### **Relative Risks**

International business environment and complex international management lead to internationalized enterprises which are facing more and more sophisticated risks.

- 1) Market is changing all the time, because of market break, artificial segmentation, competition, inflation or deflation, consumer purchasing power decreasing and unpredictable raw material purchasing supply risks result in market share has dropped sharply or anti-dumping and antitrust charges.
- 2) New products and services development did not meet the needs, product quality and defects problems, obsolete, or renewal untimely lead to risk.
- 3) Because of the internal management confusion causes insolvency or losses.
- 4) The development and scale expansion of international enterprise will obvious lead to regional dispersion. As a result, it gets more and more difficult for company to control their human resources, finance and materials.
- 5) Political risks have a big influence on their trade. The risks from foreign countries

including the economic, regulation and polity factors and the changes in different types of regulation as well as trade policies may cause a materially adversely effect on their sales, business and results of operations.

- 6) Culture is an unnegligible risk factor. The complexity and uncertainty culture environment make the fact profit goes against the expected benefits objective and even lead to the failure of the business activities. The misconception and conflict of the culture may danger to the achievement of their operation objective.
- 7) Currency risk is always a main risk almost for every international company. The exchange rate fluctuations have a large influence on their net sales, costs and results of operations. (Bright Hub 2011)

### **Risk Management**

It is very important for company to build risk a management system to evaluate and deal with the risks they may meet. The risk management system should be responsible for identifying, analyzing response and monitoring risks.

- 1) Risk identification: namely determine what risks may have influence on enterprise, risk management organization should clearly describe these risks and risks' characteristics. Generally speaking, risk identification is a repeated process and should be as comprehensive as possible to identify the risks which the company may face. Risk classification and induction are commonly used in risk identification method.
- 2) Risk analysis: the process of evaluating the identified risks' possible consequences and impacts. Organizations can use either qualitative or quantitative analysis method to further define the impact of identified risks. According to their impacts to rank risks in order to identify the key risk items and guide risk response planning.
- 3) Risk response: focus on the risks to develop risk response plan and organize the necessary resources. Aim to effective control the risks and avoid the risks out of control and evolve into crisis. Risk response plan should include main categories of current and future risks which business may face and the response measures

for each type of risks as well as the operating procedures for each measure. Operating procedures are including required resources, complete time and completion status.

- 4) Risk monitoring: risk monitoring is through the whole risk management process, including tracking identified risks, monitoring residual risks and identifying new risks, ensuring risk response plan implementation and assessing the effectiveness of risk response measures for risk mitigation and report the monitoring. Risk monitoring is a continuous process during risk management life cycle. Throughout the operating process, the risks are constantly changing, new risks may appear and anticipated risks may disappear. (Bright Hub 2011)

## **5 MARKETING RESEARCH PROCESS**

In this chapter, the research part of the thesis is explained. The chapter is divided into three parts, namely research strategy, data collection and data analyze. Firstly, the research method, sample selection and data collection according to the theoretical framework are explained, and then the results of the research will be analyzed.

### **5.1 Research Method**

This thesis focuses on creating a successful European marketing strategy for Herborist. The research method used for this research is a questionnaire survey. In this thesis project, the object of the questionnaire was to figure out the relevant information of target consumers, sales channel, price position and channels for sale promotion and so on. In order to design the questionnaire, an extensive literature review was done. The frame work of the questionnaire was divided into three parts: background information of the respondent and the use of cosmetics, and opinions about Chinese herbal medicine cosmetics. Through this questionnaire, all the relevant aspects on marketing strategy were studied. In the questionnaire, closed questions were applied widely (Appendix).

### **5.2 Sample Selection and Data Collection**

The survey was conducted from March to April 2011. The target group was from 18 to 60 years old European citizens in Paris and Milan.

The plan was to deliver 500 copies of questionnaires. 250 copies of questionnaires were delivered in Paris and 250 copies of questionnaires were delivered in Milan. The questionnaires were translated into French and Italian in case some customers

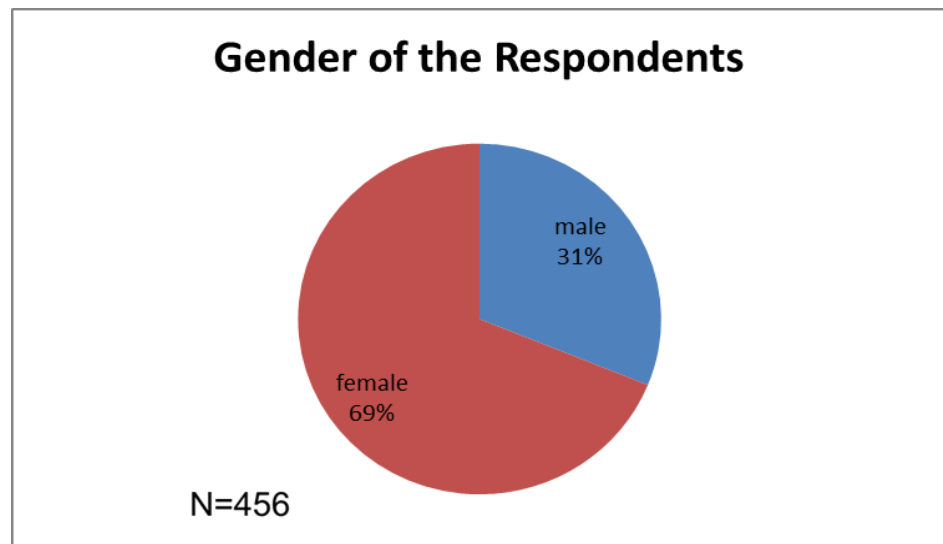
cannot understand English very well. In Paris, the questionnaires were delivered in val d'europe and Sephora cosmetic stores. In val d'europe, there is a super shopping center and La Vallée Village (famous outlet) is also located in val d'europe. Sephora is a global chain cosmetic store and it is very popular in Paris. In Milan, the questionnaires were delivered in Via Monte Napoleone, Via S. Andrea, Via della Spiga and Via Borgospesso. These four famous streets form the main shopping center in Milan. The questionnaires were delivered to the customers in these shopping centers or Sephora cosmetics stores. The data collection process lasted for 2 weeks and 462 questionnaires were recovered and the recovery rate was 92,4 percent. From these questionnaires 456 questionnaires were valid and the efficient rate is 98,7 percent.

### **5.3 Results of the Survey**

The results of the survey will be analyzed through explaining the figures.

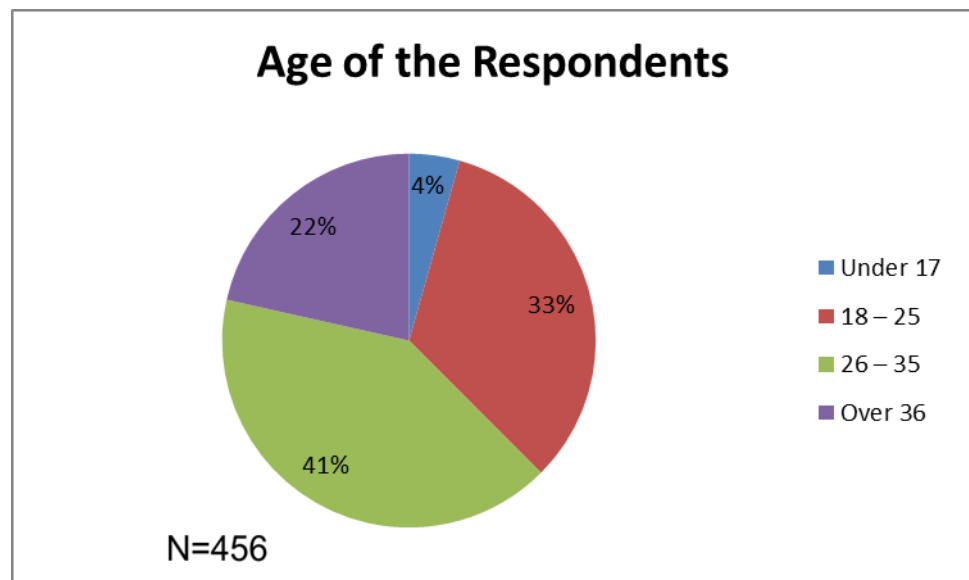
#### **5.3.1 Background Information of the Respondents**

In the questionnaires, questions 1-5 collected the background information of the respondents and their use of cosmetics.



*Figure 4. Gender of the Respondents.*

The first question was about the gender of respondents. From figure 4, we can see that there are 142 male respondents which account for 31 percent and there are 314 female respondents which account for 69 percent.



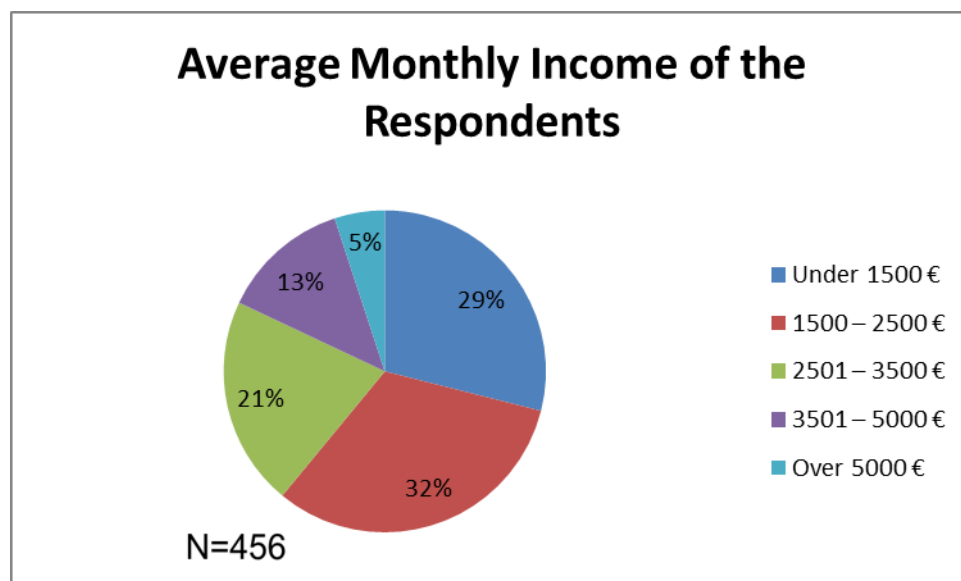
*Figure 5. Age of the Respondents.*

The respondents are divided into four age groups. The division of age group is based on the situation of their skin. Young people under 17 years need only basic cosmetic care for their skins. The people at the age group from 18 to 25 years need



deep cosmetic care for their skin because their skin is changing to mature skin. The ages from 26 to 35 need deeper cosmetic care because their skin already needs special treatment to maintain youthful appearance. The ages over 36 years old need overall cosmetic care to prevent any damages caused by growing old. The survey results show the main age groups of respondents are the age covering from 18 to 25 and from 26 to 35, in which the number of respondents is 151 and 187. Next age group is over 36 years old and the number of respondents is 98. And the number of respondents in age group under 17 is 20.

This chart shows that the main age groups of respondents are the age covering from 18 to 25 and from 26 to 35. So the young and the middle-aged people pay more attention to cosmetics products than other age groups. They are the main consumer group for cosmetic industry. Thus, they could be the target customer group for Herborist.

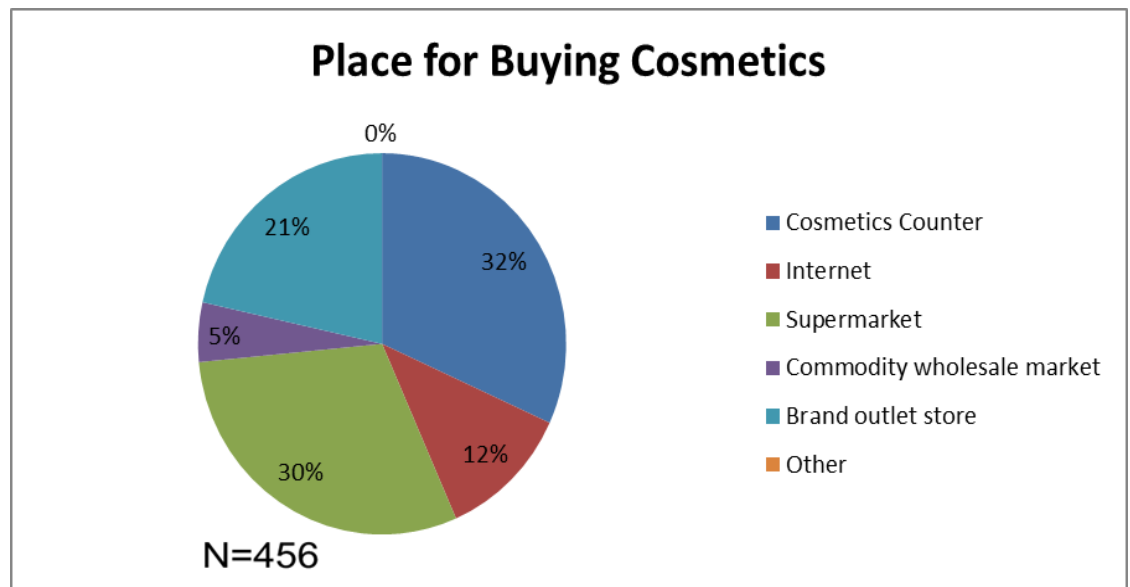


*Figure 6. Average Monthly Income of the Respondents.*

According to the numbers from this chart, respondents' average monthly income is almost under 3500 euro. The largest group is the average income from 1500 to 2500 euro which has 146 people. The second group is the average income under 1500 euro which has 132 people. The third group is the average income from 2501 to

3500 euro which has 96 respondents. There are 59 respondents with the average monthly income from 3501 to 5000 euro and 23 respondents with the average monthly income over 5000 euro.

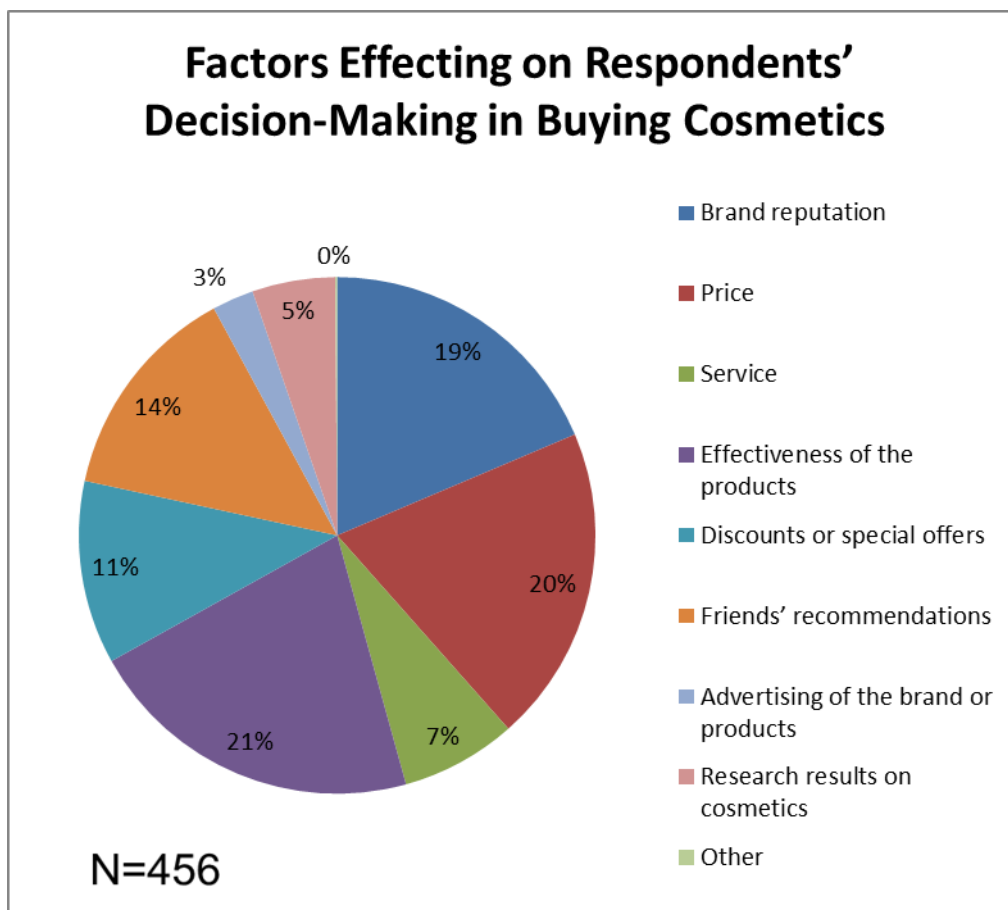
These figures can help to find out the potential consumers' average monthly incomes and it would be useful for Herborist to make reasonable product price.



*Figure 7. Place for Buying Cosmetics.*

The results show that the most common places to buy the cosmetics are cosmetics counters and supermarkets which have separately 145 and 137 respondents. 21 percent of respondents chose brand outlet stores with the number of 98. 53 respondents chose internet and 23 respondents chose commodity wholesale market.

Compared with previous figures, there is no difference between different genders in choosing the place for buying cosmetic products. The buying behavior of different age groups varies to some extent because some young people prefer to buy cosmetics from internet.



*Figure 8. Factors Effecting on Respondents' Decision-Making in Buying Cosmetics.*

It is obvious that most of the respondents chose “Effectiveness of the products” with the number of 375, accounting for 21 percent. The second one is “Price” with the number of 351 respondents. The third factor is “Brand reputation” and there are 329 respondents who chose this one. There are 242 respondents who chose “Friends’ recommendations” and 203 respondents who chose “Discounts or special offers”. Otherwise, there are 128 respondents chose “Service”. Only 92 respondents chose “Research results on cosmetics” and 42 chose “Advertising of the brand or products”

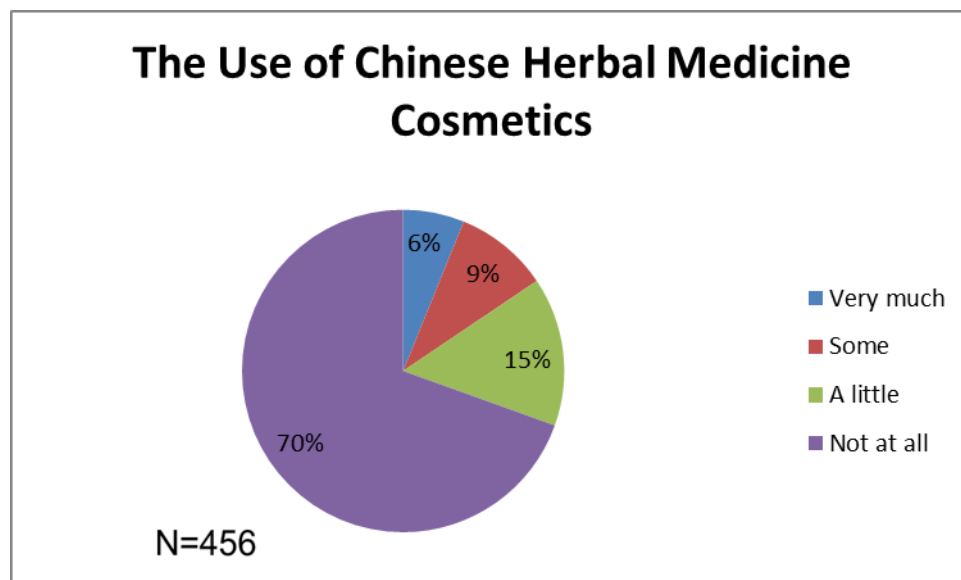
*Table 1. Factors Which Have an Effect on Respondents' Decision-Making in Buying Cosmetics.*

Factor	25 or under		26 or over	
<b>Brand reputation</b>	148	87%	181	64%
<b>Price</b>	150	88%	201	71%
<b>Service</b>	59	35%	69	24%
<b>Effectiveness of the products</b>	139	81%	236	83%
<b>Discounts or special offers</b>	87	51%	116	41%
<b>Friends' recommendations</b>	136	80%	106	37%
<b>Advertising of the brand or products</b>	22	13%	24	8%
<b>Research results on cosmetics</b>	40	23%	52	18%
<b>Other</b>	1	1%	1	0%

This table shows that when consumers purchase cosmetic products, they pay more attention on the products' effectiveness, price and brand reputation. From table 1, it can be seen that most young people (25 or under 25) consider the price, brand reputation and friends' recommendations, whereas most of the middle-aged (26 or over 26) people pay more attention on the effectiveness of the cosmetics.

### **5.3.2 The Information about Chinese Herbal Medicine Cosmetics**

In the questionnaires, questions 6-9 collected the information about Chinese herbal medicine cosmetics. These questions could help Herborist to figure out the basic idea for their marketing strategy.



*Figure 9. The Use of Chinese Herbal Medicine Cosmetics.*

This question is “Have you used any Chinese herbal medicine cosmetics before?” 317 respondents chose “Not at all” and 69 respondents chose “A little”. Only 71 respondents chose very much and some.

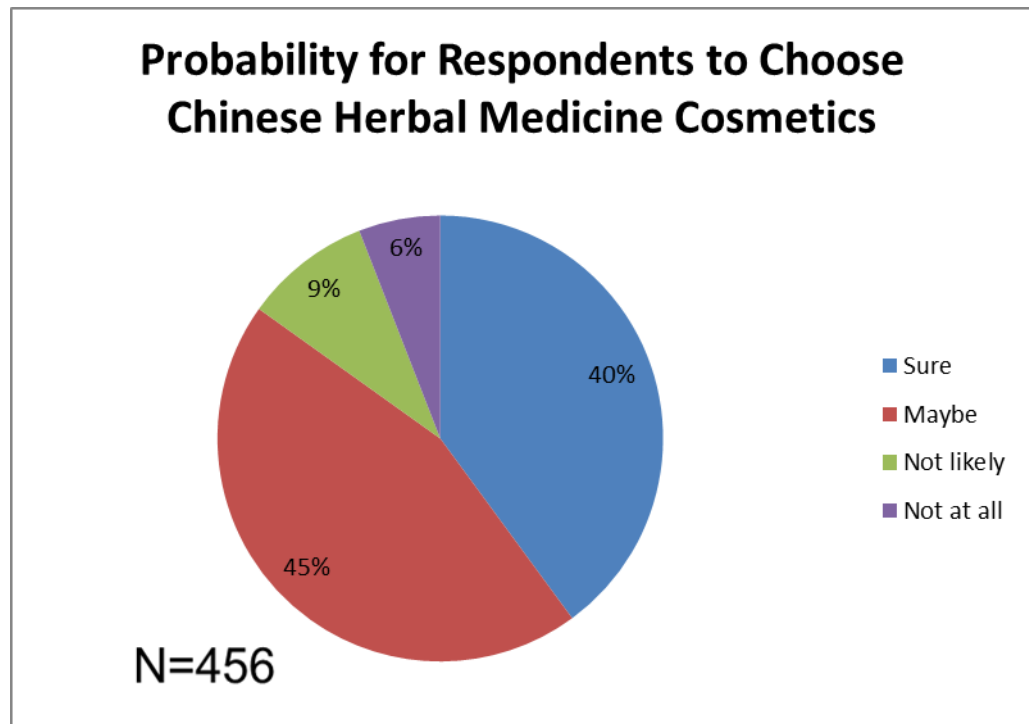
*Table 2. The Use of Chinese Herbal Medicine Cosmetics in Different Age Groups.*

Use of Chinese Herbal Medicine Cosmetics	Age group				Total	
	25 or under		26 or over			
<b>Very much</b>	10	5.8%	18	6.3%	28	6.1%
<b>Some</b>	15	8.8%	28	9.8%	43	9.4%
<b>A little</b>	27	15.8%	41	14.4%	68	14.9%
<b>Not at all</b>	119	69.6%	198	69.5%	317	69.5%
<b>Sum</b>	171	100%	285	100%	456	100%

*Table 3. The Use of Chinese Herbal Medicine Cosmetics in Different Income Groups.*

Use of Chinese Herbal Medicine Cosmetics	Monthly income group										Total	
	Under 1500		1500-2500		2501-3500		3501-5000		Over 5000			
<b>Very much</b>	6	4.5%	6	4.1%	7	7.3%	9	15.3%	0	0.0%	28	6.1%
<b>Some</b>	4	3.0%	13	8.9%	11	11.5%	13	22.0%	2	8.7%	43	9.4%
<b>A little</b>	9	6.8%	18	12.3%	20	20.8%	15	25.4%	6	26.1%	68	14.9%
<b>Not at all</b>	113	85.6%	109	74.7%	58	60.4%	22	37.3%	15	65.2%	317	69.5%
<b>Sum</b>	132	100%	146	100%	96	100%	59	100%	23	100%	456	100%

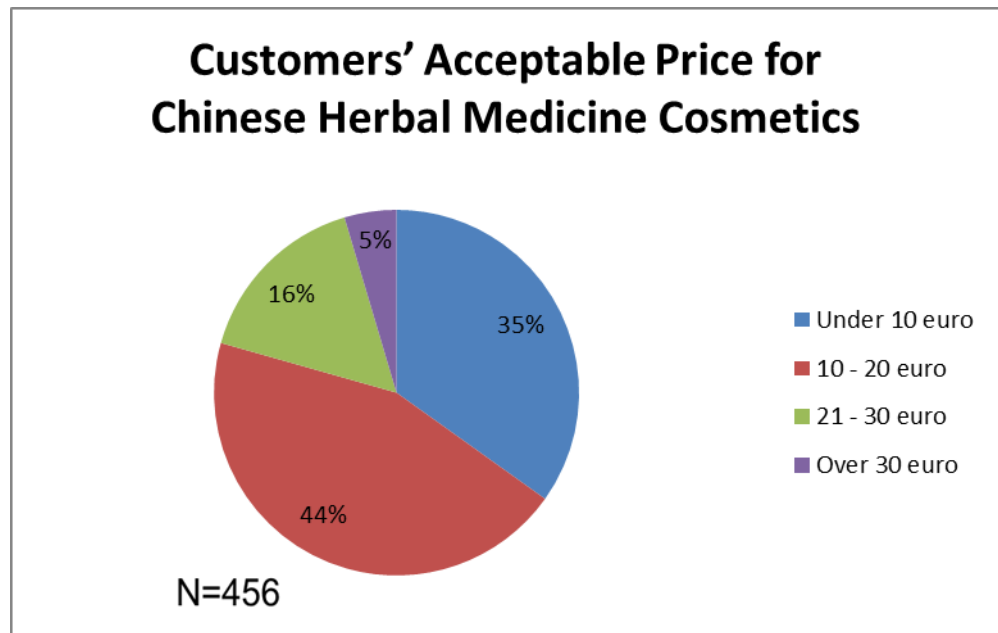
The respondents which have used Chinese herbal medicine cosmetics before are mostly middle-aged people with high income. There are also some young people who bought Herborist products according to their friends' recommendation. It shows that, Herborist still has a big potential market to extend because only a few people who have used Chinese herbal medicine cosmetics before. However, because of the same reason, it will be a challenge for Herborist to increase their brand awareness and to attract more people to use Chinese herbal medicine cosmetics.



*Figure 10. Probability for Respondents to Choose Chinese Herbal Medicine Cosmetics.*

As shown in Figure 10, when asked “Would you possibly choose Chinese herbal medicine cosmetics?”, 205 respondents chose “Maybe” which accounts for 45 percent and the number of respondents who chose “Sure” is 159 which accounts for 40 percent. 9 percent of the respondents chose “Not likely” and only 6 percent chose “Not at all”, which have separately numbers 73 and 21.

The statistics show that there are many people who are interested in Herborist products. Among these, young respondents are more interested in Herborist products than middle aged and older people. Finally there is no difference between men and women.



*Figure 11. Customers' Acceptable Price for Chinese Herbal Medicine Cosmetics.*

According to the answers, 203 respondents chose a price between 10 and 20 euro accounting for 44 percent of the total number. 159 respondents chose under 10 euro accounting for 35 percent. 73 respondents chose a price between 21 and 30 euro accounting for 16 percent. Only 21 respondents chose over 30 euro.

*Table 4. Customers' Acceptable Price for Gender Groups.*

Acceptable price	Gender group				Total	
	Male		Female			
<b>Under 10 euro</b>	40	28.2%	119	37.9%	159	34.9%
<b>10 - 20 euro</b>	71	50.0%	132	42.0%	203	44.5%
<b>21 - 30 euro</b>	24	16.9%	49	15.6%	73	16.0%
<b>Over 30 euro</b>	7	4.9%	14	4.5%	21	4.6%
<b>Sum</b>	142	100%	314	100%	456	100%



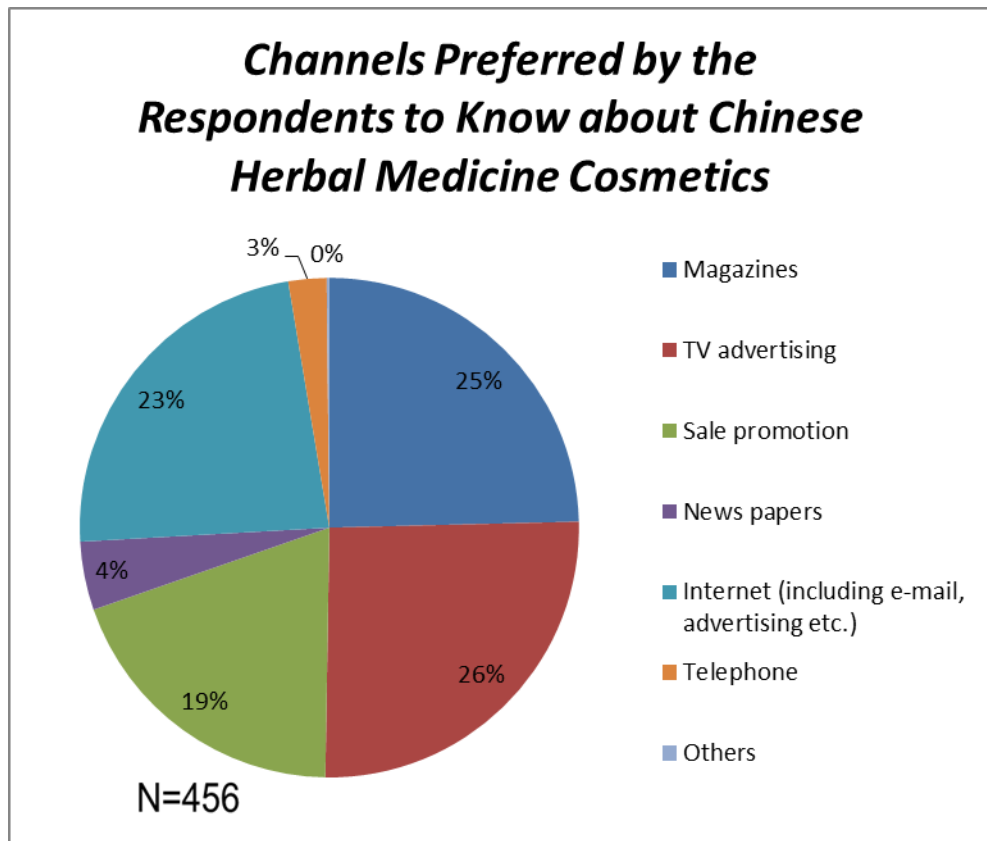
*Table 5. Customers' Acceptable Price for Monthly Income Groups.*

Acceptable price	Monthly income group										Total	
	Under 1500		1500-2500		2501-3500		3501-5000		Over 5000			
<b>Under 10 euro</b>	64	48.5%	53	36.3%	25	26.0%	14	23.7%	3	13.0%	159	34.9%
<b>10 - 20 euro</b>	51	38.6%	67	45.9%	47	49.0%	27	45.8%	11	47.8%	203	44.5%
<b>21 - 30 euro</b>	14	10.6%	23	15.8%	17	17.7%	12	20.3%	7	30.4%	73	16.0%
<b>Over 30 euro</b>	3	2.3%	3	2.1%	7	7.3%	6	10.2%	2	8.7%	21	4.6%
<b>Sum</b>	132	100%	146	100%	96	100%	59	100%	23	100%	456	100%

*Table 6. Customers' Acceptable Price for Age Groups.*

Acceptable Price	Age group				Total	
	25 or under		26 or over			
<b>Under 10 euro</b>	59	34.5%	100	35.1%	159	34.9%
<b>10 - 20 euro</b>	62	36.3%	141	49.5%	203	44.5%
<b>21 - 30 euro</b>	46	26.9%	27	9.5%	73	16.0%
<b>Over 30 euro</b>	4	2.3%	17	6.0%	21	4.6%
<b>Sum</b>	171	100%	285	100%	456	100%

The feedback shows that, male respondents and respondents with a higher average monthly income are those who would like to pay more for the cosmetic products. Most young people prefer to pay under 20 euro.



*Figure 12. Channels Preferred by the Respondents to Know about Chinese Herbal Medicine Cosmetics.*

The above figure shows through which channels customers are glad to choose to know Chinese herbal medicine cosmetics. It is obvious that the top three choices are: “TV advertising” chosen by 301, “Magazines” chosen by 289 and “Internet (including e-mail, advertising etc.)” chosen by 273. There are 228 respondents who chose “Sales Promotion” which accounts for 19 percent. Then there are 52 respondents who chose “Newspapers” and 29 chose “telephone”.

The feedback shows that, young people would like to get the information from magazines and internet. Middle- aged respondents refer to get the information from TV advertising and sales promotion. The aim of this question is to help Herborist to find out their main sales channels.

### 5.3.3 Information about Herborist Products and Services

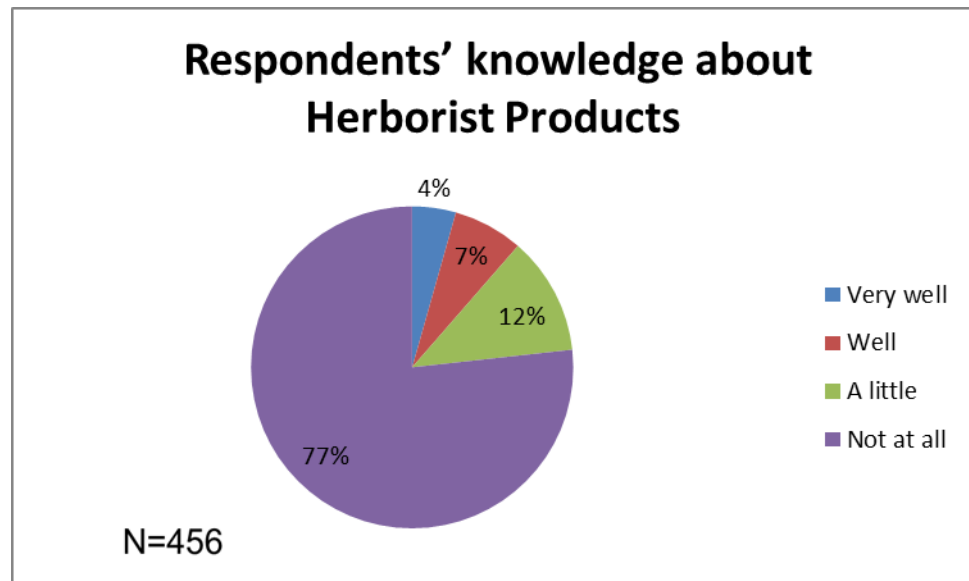
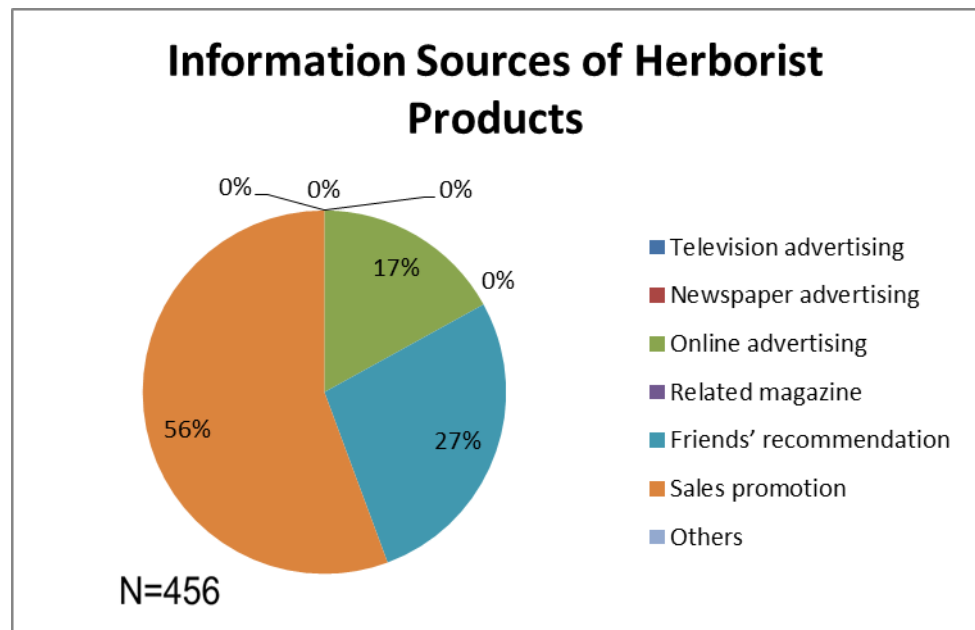


Figure 13. Respondents' Knowledge about Herborist Products.

This question is "How well do you know Herborist?" The above figure shows how much the respondents know about Herborist products. 350 of the respondents chose "Not at all" accounting for 77 percent of the total number. 54 respondents chose "A little". Then there are 32 people who chose "Well" and only 20 people chose "Very well".

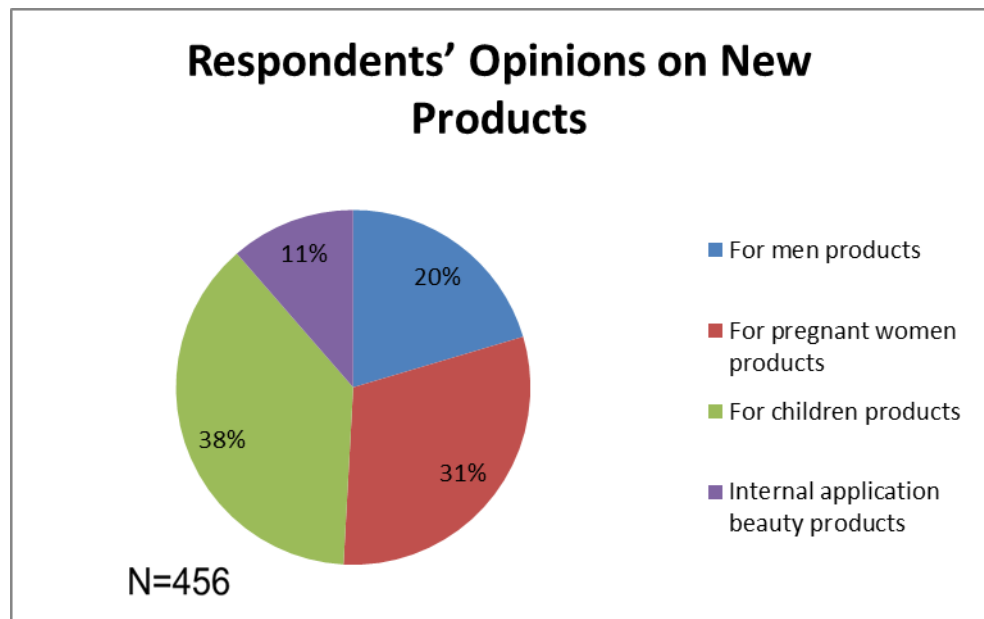
The feedback to this question matches with the question "Have you used any Chinese herbal medicine cosmetics before?"



*Figure 14. Information Sources of Herborist Products.*

This question is about “Where did you learn to know Herborist?” and it was set for the people who have been using or had heard about Herborist. 59 respondents chose “Sales promotion”, which accounts for 56 percent of the total number. 29 respondents chose “Friends’ recommendation”, which accounts for 27 percent. Only 18 respondents chose “Online advertising”. Nobody chose other sources.

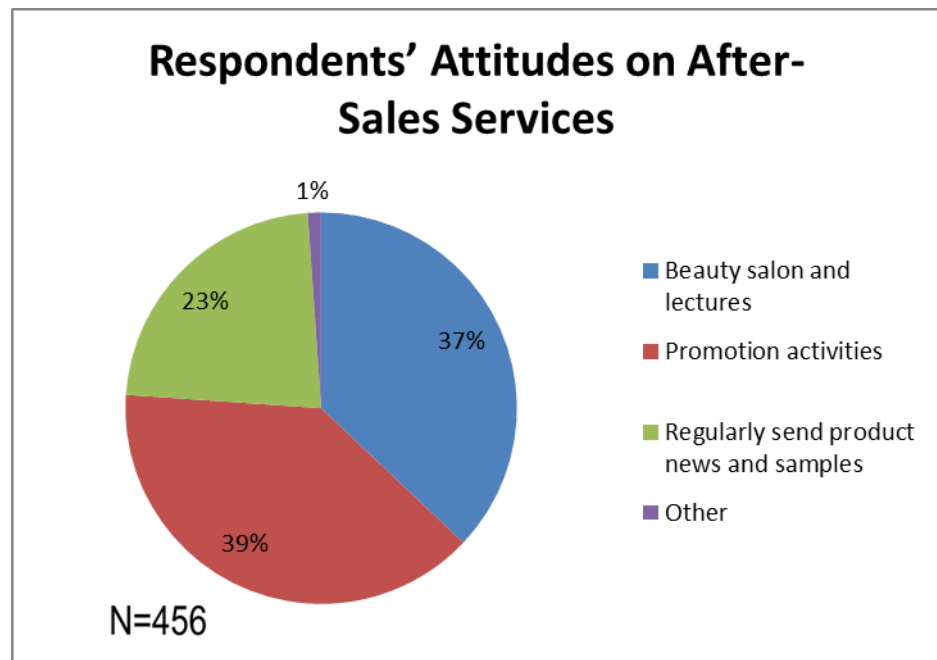
The feedback shows that there is no difference between different ages, genders or income. Anyway, Herborist should pay close attention on their sales promotion.



*Figure 15. Respondents' Opinions on New Products.*

When it was asked from the respondents “Which kind of new products you hope Herborist to introduce for the European markets” 172 respondents chose “For children products” which accounting for 38 percent. And 139 respondents chose “For pregnant women products” which accounting for 31 percent and 93 people chose “For men products” which accounting for 20 percent. Only 52 respondents chose “Internal application beauty products”.

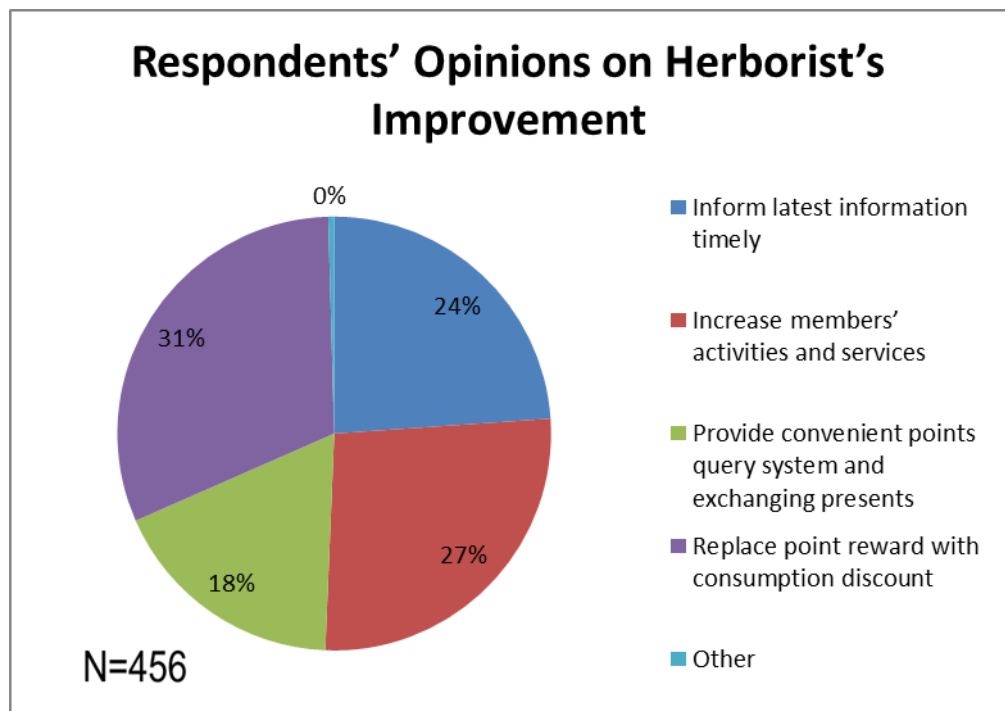
The feedback shows that most of the respondents who chose “For children products” are middle-aged females. Male respondents and some meddle-age females chose “For men products”. And lots young people chose “For pregnant women products”.



*Figure 16. Respondents' Attitudes on After-Sales Services.*

This question is about customers' attitudes toward Herborist's after-sales services. The chart shows that 178 respondents chose "Promotion activities" which accounts for 39 percent of the total number. 168 respondents chose "Beauty salon and lectures" which accounts for 37 percent. And 104 people chose "Regularly send product news and samples" which accounts for 23 percent.

From the feedback of the question, most young people chose "Beauty salon and lectures" and lots of middle-age people chose "Promotion activities". It requires Herborist pay more attention on after-sales service to attract more customers. Promotion activities and beauty salon and lectures will be good choices.



*Figure 17. Respondents' Opinions on Herborist's Improvement.*

This question is about “What do you think Herborist can improve on their club marketing?” Results show that 142 respondents chose “Replace point reward with consumption discount” which takes 31 percent. Then there are 122 respondents who chose “Increase members’ activities and services” which takes 27 percent. There are 109 people who chose “Inform latest information timely” which takes 24 percent. Only 81 people chose “Provide convenient points query system and exchanging presents” which takes 18 percent.

This figure displays that most customers want consumption discount rather than point reward. There is no difference between different ages and genders can be noticed. Herborist should take the respondents’ opinions into consideration when improve its after-sales services in order to satisfy more consumers.

## 6 INTERNATIONAL MARKETING STRATEGY FOR HERBORIST

Through comprehensive analysis of the questionnaires' feedback, several conclusions can be summarized as the basic information for Herborist's international marketing strategy:

- 1) Target consumers: the target consumers for Herborist are from 17 to 40 year-old female, with middle level income.
- 2) Sales channel: most consumers buy cosmetics from cosmetic counters in the department stores or supermarkets.
- 3) Price position: the acceptable price is between 5 and 20 euro for 100ml.
- 4) Channels for sale promotion: most consumers would like to get information on Herborist from internet, magazine and TV advertising.
- 5) Key factors on sale promotion: according to the feedback, it can be concluded some factors which may affect sales promotion, that is, effectiveness of the products, price and brand reputation.

As Herborist does not have the ability to develop business in very many European countries at the same time, market segmentation seems important at present. Because Herborist has already developed its business in France, it has a certain brand reputation and consumer base there. France can be recommended as Herborist's European market center. Herborist should apply new sales channel to consolidate the French market. On the other hand, also neighboring countries be considered, such as Italy. In this thesis, the focus is on finding the best marketing channel and to analyze Herborist's international marketing strategy.

### 6.1 Herborist's Previous International Strategy Cases Analysis

#### Case1:

In November 2002, Jahwa tried to choose Hong Kong as Herborist's international test market (in 2002 Hong Kong did not belong to China). However, because Hong



Kong's consumers only regarded Herborist as mass care brand and Herborist did not acclimatize foreign market. Herborist moved their counters to a large care market in 2007 and gave up self-agency mode, instead of looking for local agents, after which started to increase gradually.

It can be concluded that the reason for failure from their test on Hong Kong market as follows:

- Herborist listed in Hong Kong, use store marketing model cannot form localization.
- Herborist invested high distribution cost in Hong Kong sales network which lead to extensive cost.
- Strange environment resistance to a new brand. The basic problem was brand recognition. In order to solve the conflict problem the company needs to invest a lot of money.

### **Case 2:**

In case 1, Herborist's international channel model from manufacturing enterprises direct to consumers. Because of the failure, Herborist realized that they have to change. It revised international channel model was from manufacturing enterprises to agency to consumers.

Herborist has its own standards when they choose agencies. Firstly, the agency must have huge sales networks. Secondly the agency needs to have resources to solve brand recognition basis problem, lastly, the agency should have a good image. After its consideration, Herborist decided to choose Sephora as their agency. On the other hand, the competition between Herborist and Sephora was beginning.

When Herborist plan to expand their market to overseas, Sephora also wanted to expand the markets of their hand and foot care products. During three years of competition, Herborist and Sephora built joint venture Company in China, and Herborist entered into Sephora's sales network. Based on the experience gained, it

can be seen that when Herborist plan to enter into foreign markets, they use cooperative partnership relations as their channel basis to design their marketing strategies. After Herborist paid an official visit to Paris through Sephora's sales network, they have become popular with consumers. Indeed, choosing of Sephora have solved the channel building problem and the brand recognition problem and reduced a lot of high costs. However, for Herborist's long-term strategy, it is not enough to have Sephora as the only agency in their foreign market. It will not be conducive to expand to European market, and the company can very easily be threatened by Sephora. As a result, Herborist only has relatively narrow foreign sales channels. With this reason, while Herborist maintain relationship with the current agency, they must actively develop new channels.

## **6.2 SWOT Analysis of Herborist**

SWOT is an overall evaluation method, for analysing the company's strengths, weaknesses, opportunities and threats and for combining company's strategies with their internal resources and external environment. Strength and weakness are company's internal factors. Opportunity and threat are company's external factors. (Kotler 2000, 76-77)

The steps of SWOT analysis:

- 1) Analyse environment factors: That is, external environment factors and internal ability factors. External environment factors include opportunities and threats which have direct effect on the company's development and belong to objective factors. Internal ability factors include strengths and weaknesses which refer to company's own existing positive or negative factors.
- 2) Create SWOT matrix: Based on influence degree to list all the factors and create SWOT matrix.

- 3) Develop action plan: The basic idea is play advantage factors, overcoming weakness factors, take opportunity factors and dissolve threat factors. (Kotler 2000, 76-77)

According to the above instructions, SWOT can be utilized to analyse Herborist's external environment and internal ability as follows:

Strengths:

S1: The first Chinese modern herbal medicine high-end personal care products.

S2: Counter plus store plus SPA channel concept.

S3: Effective improvement on customer communication and marketing management.

S4: Product is in growing period.

S5: Have professional research and development team.

Weaknesses:

W1: Lack of experience on international marketing.

W2: Cooperation with Sephora and be controlled by Sephora.

W3: It is not easy for consumers to accept new brand.

Opportunities:

O1: With the leader of Sephora enter into European market.

O2: There are not so many herbal medicine cosmetic competitors in European market.

O3: Chinese medicine has started to spread in Europe.

Threats:

T1: Compete with lots of world famous cosmetic brands.

T2: The control of Sephora.

T3: The impact of the same type of brand agency.

T4: The financial crisis has decreased the spending power.

From the SWOT analysis we can conclude as follows:

- 1) Herborist should insist counter plus store plus SPA channel as well as apply Chinese culture in order to create a unique brand style.
- 2) Herborist should make good use of their professional research and development team to develop innovative cosmetics and meet the various needs of consumer.
- 3) Herborist has to develop a new sales channel and separate from Sephora.
- 4) As soon as Herborist has certain foundation in France, it can think about using France as their European market center. Only by having a fixed customer base they have chance to expand step by step.

### **6.3 The Suggestion on How to Make International Strategy for Herborist**

Related to the analysis of the previous cases and SWOT, some ideas on how to avoid the same mistakes as well as how to fill the weaknesses and take the opportunities can be concluded.

#### **6.3.1 Porter Five Forces Analysis**

The five forces include existing competitors, threat of new entrants, threat of substitute products or service, bargaining power of suppliers and bargaining power of buyers (see figure18). Porter argued that these five factors contain three successful strategic ideas, that is, cost leadership strategy, differentiation strategy and segmentation strategy. The objective of these strategies is to assist enterprises to take competitive advantage. This objective may mean gaining higher profitability or achieving only a necessary condition to obtain slightly income. (Michael E. Porter, Harvard Business Review, 2008)

According to the above theory, Michael Porter's Five Forces Model is used to analyze Herborist's international market channel reconstruction:

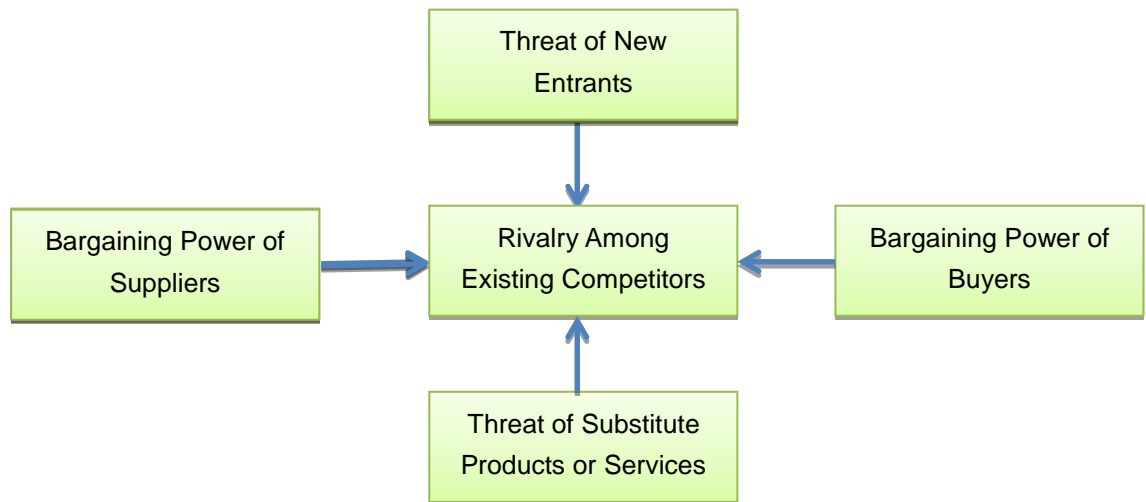


Figure 18. *The five Forces that Shape Industry Competition (Porter, Harvard Business Review, January 2008).*

- 1) Suppliers: At present, Herborist uses a single agent model its foreign suppliers. Such as in France Region: Sephora; Hong Kong: Mannings. Under such circumstances, Herborist holds weak power on the construction of the channel.
- 2) Customers: From customer delivered value point of view to analyze the channel construction, if they can reduce the time of customer, they will increase benefit.
- 3) Competitors: When competitors get more benefit, it will weaken Herborist's channel advantage.

Though the above analysis, it can be concluded that there are two strategies of Porter that can be applied to Herborist for reconstructing marketing channel:

- Cost leadership strategy: Cost leadership is for Herborist's understanding of the financial situation. Some of the financial statements from the domestic show, that the best expansion way for Herborist is to reduce channel cost for increasing the cost-effectiveness. Because the cost cannot be only "cost-cutting," they must have "open source" in other areas to achieve cost

leadership.

- **Differentiation strategy:** Differentiation can be understood from two aspects: Herborist just started their European marketing with a single channel, but they must make differences from their own channels to others. Secondly is the use of Chinese elements to create different channel strategy, despite that the nature may be similar, but the general awareness of consumers will be very different.

### **6.3.2 Approaches of Product Promotion**

Based on the above two strategies, Herborist can use direct marketing and SPA model to develop the target market:

#### **1) Cost leadership strategy—Direct marketing**

From financial environment to analyze direct marketing, it belongs to direct management with the shortest channel length and with high control power. What's more, it can reduce the cost of channel building and achieve cost leadership.

From the customers' point of view, direct marketing can greatly reduce the customers' purchase cost; they can use online purchasing (including customer service, online promotion activities, products portfolio, product introduction and membership), telephone purchasing (including cell-phone message service and call center) and mail-ordering (including mail products and mail publication) and so on. According to the optimization of business channels to enhance value which will be delivered to customers.

From Herborist's operating strategy point of view, direct marketing can integrate regional sales network, such as France as the center of European sales network, and even world's sales network integration.

If direct marketing is analyzed from the product strategy point of view, direct

marketing can increase the contact area between company and consumers, and optimize communication channel between them and optimize Herborist's product setting to better meet consumers' demands and increase consumers' loyalty.

The key successful factors which affect direct marketing:

- 1) To minimize the perception of agents, and coordinate both benefit: as entrants, in a large extent the success of enterprise is controlled by agent. In the beginning, if they build other channels it will be objected by their agents and even cause interference, so they have to prepare other channels imperceptibly. Direct marketing mainly means network and print media marketing.
- 2) To turn consumer groups into client assets relies heavily on the construction of customer relationship management: the build of customer relationship management system and customer relationship management are the bases for direct marketing.
- 3) To innovate product portfolio model: product portfolio mainly based on the consumer's analysis by customer relationship system to distinguish the core customers and the general customers. According to consumer classifying to develop product portfolio model can greatly reduce the conflict with other channels. This is also the most important part of successful direct marketing.

## **2) Differentiation strategy—SPA model abroad**

In 2007, Shanghai Jahwa set up Han Fang SPA Co., Ltd and now it is an independent operator. But Han Fang Spa is only an assistance of Herborist. So we can easily see that SPA model is another special channel strategy for Herborist.

Han Fang SPA is a technical preparation for Herborist's listing. This may also explain why Jahwa once tried to separate Han Fang from Herborist for independent development. One reason is for listing, another reason is to better link the abroad

strategic model. In case Herborist plus SPA model failed, Hang Fang can develop other business and minimize their risk.

From domestic SPA model it can be seen that the establishment of a club needs large amount of funds. It will involve a number of foreign customs and policy issues. So the cost will be greatly increased. Separate listing enables Herborist to have more cash flow.

The forecast of SPA abroad approach:

- a) Establish Herborist flagship store. Flagship store is approximately equal to SPA club.
    - Flagship store is accord with create fashion corporate strategy of Herborist.
    - Flagship store can build image for Herborist.
    - Flagship store is only as beauty care club, rather than product sales store. It avoids conflict with Sephora and can initially test foreign consumers' response for the Chinese type SPA.
  
  - b) Flagship store as a test store:
    - Initiate large investment can test company's actual capacity, and can test the cost to build a SPA sales network.
    - If the cost is huge, flagship store can be used as a standard store and try to find special franchisee model to expand SPA network.
  
  - c) The flagship store can be combined with direct marketing
- If SPA model is not feasible in European countries in a short time, then the store can be combined deeper with direct marketing.



## 7 CONCLUSIONS

The study objective of this thesis was to find a good international marketing strategy for Herborist's European market. Internationalization is a complex process for the company. Because of the complicated global environment, the company has to pay more attention on their business operation. There are lots of differences between the Chinese market and the European market, such as different cultures, different polices, different customer needs and so on. The company will face more challenges and threats.

Herborist is the first high-end brand for Jahwa and it is also one of the domestic national high-end "luxury" brands, with ten years brand heritage, Herborist already has abilities to compete with international brands. At this time, a reasonable marketing strategy is necessary for Herborist.

After careful consideration of Herborist's internal and external situation, in order to survive in international market, Herborist must adjust their management to adapt European market. The company must make full use of their development and research team to do deep research on foreign market and to develop new products to meet more customers' needs. Herborist has some outstanding brand features as I mentioned before, and this will offer a big advantage for their development. Herborist should apply these brand features to their international marketing strategy. In the marketing strategy, Herborist must actively apply modern marketing communication tools to build a sound marketing network. Sales channel is an exceptionally important process during Herborist's expansion. It is obvious that reasonable sale channel will be the foundation for Herborist's long-term survival.

Another significant process for Herborist's internationalization is the selection of target market. For Herborist, this is not a difficult question. Because Herborist has already started their business in France and according to the research, Herborist has a customer base in French. The next step for Herborist is consolidate French

market, such as do deeper market research to find out customers' feedbacks and their attitudes toward their products and services. Then, depending on the feedback the company needs to adjust and perfect their products and services. The second target market choice for Herborist is Italy, because Italy is near France and it is a big country with more opportunities. It requires Herborist to takes full use of their spa mode and direct marketing mode to develop their core competitiveness.

Entering a foreign market and adapting the operations to the new environment is as a whole a complex process for a company and it is obviously a big challenge for the marketer. Herborist has to consider all international factors more thoroughly. This thesis may be helpful to Herborist in their international marketing.

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## APPENDIX

### THE RESEARCH QUESTIONNAIRE FOR HERBORIST

This survey is made for Herborist to research consumers' purchase intentions. Herborist is willing to know your selection and buying intentions and consumption status so that Herborist can adapt to European markets sooner and better. Your support is very important for Herborist for their product and marketing improvement. You only need to express your real thoughts and to fill in the questionnaire. Your answers will remain strictly confidential. Thank you for your valuable time to complete this questionnaire.

#### Part 1: Background information of the respondent and the use of cosmetics

**1. What is your gender?**

- Male
- Female

**2. What is your age in years?**

- Under 17
- 18 – 25
- 26 – 35
- Over 36

**3. What is the average income/month of your household? (in €)**

- Under 1500 €
- 1500 – 2500 €
- 2501 – 3500 €
- 3501 – 5000 €

- Over 5000 €

**4. Where do you usually buy cosmetics?**

- Cosmetics Counter in a department store
- Internet
- Supermarket
- Commodity wholesale market
- Brand outlet store
- Other, what? \_\_\_\_\_

**5. When you buy cosmetics, what factors affect on your decision-making most? (You can tick several choices.)**

- Brand reputation
- Price
- Service
- Effectiveness of the products
- Discounts or special offers
- Friends' recommendations
- Advertising of the brand or products
- Research results on cosmetics
- Other, what? \_\_\_\_\_

**Part 2: Opinions about Chinese herbal medicine cosmetics**

**6. Have you used any Chinese herbal medicine cosmetics before?**

- Very much
- Some
- A little
- Not at all

**7. Would you possibly choose Chinese herbal medicine cosmetics?**

- Sure
- Maybe
- Not likely
- Not at all

**8. How much would you like to pay for the Chinese herbal medicine cosmetics (for 100ml)?**

- Under 10 euro
- 10 - 20 euro
- 21 - 30 euro
- Over 30 euro

**9. Which kind of channel would you prefer to know about Chinese herbal medicine cosmetics? (You can tick several choices.)**

- Magazines
- TV advertising
- Sale promotion
- News papers
- Internet (including e-mail, advertising etc.)
- Telephone
- Others, what? \_\_\_\_\_

**10. How well do you know Herborist?**

- Very well
- Well
- A little
- Not at all

**11. Where did you learn to know Herborist? (You can tick several choices.)**

- Television advertising



- Newspaper advertising
- Online advertising
- Related magazine
- Friends' recommendation
- Sales promotion
- Others, what? \_\_\_\_\_

**12. Which kind of new products you hope Herborist to introduce for the European markets?**

- For men products
- For pregnant women products
- For children products
- Internal application beauty products

**13. What after-sales services you prefer to have?**

- Beauty salon and lectures
- Promotion activities
- Regularly send product news and samples
- Other, what? \_\_\_\_\_

**14. What do you think Herborist can improve on their club marketing?**

- Inform latest information timely
- Increase members' activities and services
- Provide convenient points query system and exchanging presents
- Replace point reward with consumption discount
- Other, what? \_\_\_\_\_

**Thank you very much for your cooperation!**