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POTENTIALS OF CHINESE COSMETIC MARKET

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ABSTRACT

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The objective for this thesis is to find out the facts and potential trends about Chinese cosmetic market for the commissioner, Bio-Option Oy. By presenting the facts in Chinese cosmetic market, the commissioner can know how to behave under current circumstances of Chinese cosmetic market for possible entrance in the near future. In addition, the current available distribution channels, the major international and Chinese domestic cosmetic companies and Chinese companies' and consumer behaviors, which facilitate the contacts with Chinese enterprises for the commissioner, are also presented in the thesis. Theoretical framework in the thesis includes distribution channels, consumer behavior and negotiation theories, which give theoretical support for the companies who intent to make contacts with foreign companies. The methods for the thesis mainly base on the desktop searching and printed materials in relation to the field. With fast changes of Chinese economic situations, the cosmetic market is full of chances for international and domestic companies to compete in the market. There is high possibility for the commissioner to enter Chinese cosmetic market and cooperate with Chinese enterprises, due to the currently optimistic situations of the market.

Keywords: Chinese cosmetic market, consumer behavior, distribution channels, negotiation

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1. INTRODUCTION

Globalization is now happening throughout the world at a remarkable and unprecedented speed. Companies, if any chance can be reached, will be trying to lead the trend or follow it closely, thereby they can obtain more profits from new markets and reduce risks of higher operating costs in its operational areas. To keep themselves constantly competitive in the marketplaces is their ultra purpose.

Along with the fast development of Chinese economy, both international corporations and Chinese domestic companies are competing intensely in the marketplaces. Even though the competitive situation in Chinese market is currently intensifying, there is still a huge amount of opportunities for the participants to excavate in their own fields.

The perspectives of Chinese market seem optimistic and dynamic, especially in Chinese cosmetic market, which is moving upward swiftly in recent years and strongly keeping its momentum in the foreseeable future. Indeed, more and more leading corporations tap into Chinese cosmetic market with their strengths in the field and try to obtain more market shares with the soaring growth of the market.

1.1 Research background and objectives

The commissioner of the thesis is a Finnish company located in Oulu, Bio-option Oy, which needs more information about Chinese cosmetic market for the possible entrance in the near future. In this thesis, the purposes or objectives are to find out the facts about Chinese market, especially the Chinese cosmetic market. Moreover, how foreign companies behave in the Chinese cosmetic market under the current circumstances. And more information about the consumer behaviour as well as Chinese enterprises' activities in the market needs to be presented.

At the same time, the current situation of Chinese cosmetics markets and other basic information will be provided in the thesis, such as:

- who are the main foreign players or brands in China
- who are the main Chinese players or brands
- the companies' activities in China
- main distribution channels available in china

1.2 Company Introduction

Bio-option Oy is the commissioner of this thesis, which started operation in 2009. Although the company has three people to handle daily business, the company has an intention to expand the business in the future. In addition, the company has involved of developing its healthy food with other partners in Finland, and it has also a limited product range in skin caring area, which will be intending to expand its business to foreign countries especially in China.

Meanwhile, the company has established good relationships with local laboratories of higher educational institutions due to the senior experiences of consultation in this field. This good relationship can effectively support experiments conducted for new product developments, at present moment in this case, it is the most suitable way for the company to control costs of developing new products.

2. Chinese market

In this chapter the author will present the basic facts about China and the Chinese cosmetics market.

China possesses the most population in the world, which spread unevenly on the land of China. Although around one third of Chinese people live in the cities, the buying power from these cities is so strong that it cannot be ignored and make the Chinese market one of the major markets. It is really necessary for business seekers to be aware of where the cities are and what is happening in there.

Chinese cosmetics market is one of the fast-growing markets in China, according to the performances and the activities happened in the past 10 years. More facts about Chinese cosmetics markets will be presented and discussed in this chapter as well.

2.1 Introduction to Chinese market

China is a developing country in Asia, just like other developing countries: Russia in Europe, Brazil in America, and another country from Asia also with huge population, India. The growth of China's economy is considerably fast in recent years, which explain why foreign companies tap into Chinese market. However, there are still plenty of problems for Chinese and foreign entrepreneurs to face and solve.

Chinese markets in cities could be totally diverse from that of the rural areas, due to the different degrees of developments between the cities and the rural areas in China. As the Chinese Academy of Social Sciences recently released report shows that China's current urban population's incomes are three times more than that of rural population. This makes China's Urban-rural income gap one of the largest in the world. So, the thesis will focus on the urban markets.

In general, the more population locate, the better economy can be expected. And the most populous cities are situated near or around China's coastal areas, in which people can have more

chances to find jobs, more chances to take better education, and more chances to gain better lives. Certainly, almost all of economic and business activities take place in these cities.

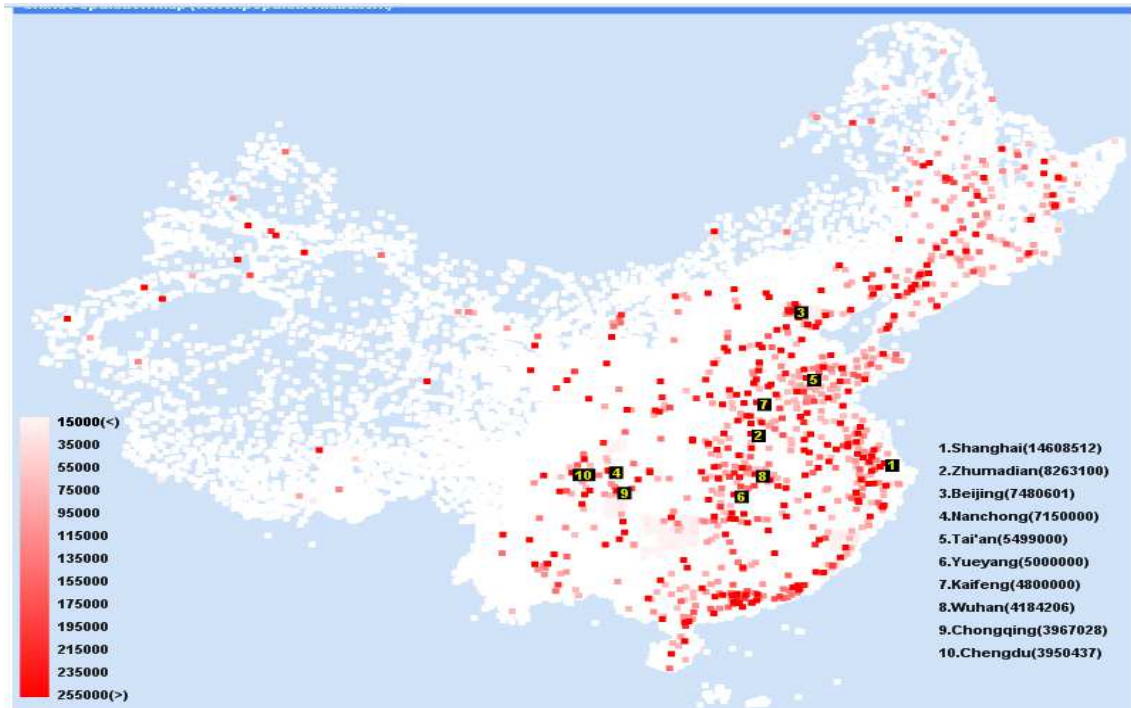


FIGURE 1. China Population Map www.populationlabs.com Date of data acquisition 27 October 2012

In the picture above shows where the populous cities locate in the mainland of China, and the top ten Chinese populous cities in the mainland are Shanghai, Zhumadian, Beijing, Nanchong, Tai'an, Yueyang, Kaifeng, Wuhan, Chongqing, Chengdu. Furthermore, China has 23 provinces and 4 municipalities that have the same positions as a province, which are Beijing, Tianjin, Shanghai and the new one, Chongqing.

More indicators of the economy in China will be helpful to give an overall picture about Chinese market. The GDP Annual Growth Rate is one of essential indicators that can show the general economic situation in China. For Chinese government, to keep at least 8% of GDP Annual Growth Rate is a main economic work for the last eight years.



FIGURE 2. China GDP Annual Growth Rate www.tradingeconomics.com Date of data acquisition 27 October 2012

In 2011, the Gross Domestic Product (GDP) in China was worth 7298.10 billion US dollars, and the Annual Growing Rate was 9.8 percent in January of 2011. GDP Annual Growing Rate of China has slowed down a little in 2012, which is 8.9 percent in the first quarter of the year and 7.4 for the last quarter. (World Bank, 2012)

In 2012 Chinese cities' GDP ranking, for the top ten in descending order, is Hong Kong HK \$ 2040.1 billion, Shanghai ¥2010.2 billion, Beijing ¥1780.7 billion, Guangzhou ¥1350.1 billion, Shenzhen ¥1295.1 billion, Tianjin ¥1288.5 billion, Suzhou ¥1201.2 billion, Chongqing ¥1145.9 billion, Chengdu ¥813.9 billion, and ¥ 800.3 billion in Wuhan. (Chinese Economy, Referred 10.5.2013)

The top ten cities that hold the highest growth in economy will be listed below. Although the list is not exactly the same with the populous cities, these cities may show better economic situations in China.

Hong Kong

Hong Kong is one of the two Special Administrative Regions of the People's Republic of China, the other being Macau. It is located in the east of the Pearl River estuary in Guangdong Province. Hong Kong and Shenzhen is separated by the Shenzhen River, near the South China Sea. From 1842 to 1997, Hong Kong was a British colony. (Wikipedia, Referred 1.6.2013)

Hong Kong's population density is rising in each year, and its total population is about 710 million people. Hong Kong matured to become a financial centre in the 1990s. As one of the world's leading international financial centres, Hong Kong has a major capitalist service economy characterised by low taxation and free trade. In 2011, GDP of Hong Kong reached HK \$1,890,939 million. According to the World Bank statistics in 2011, Hong Kong's per capita GDP was \$34,457. (Baidu Baike, Referred 1.6.2013)

Shanghai

Shanghai (上海) is the largest city in China, the world's eighth largest city, one of the four municipalities of China. There are more than 20 million people living in Shanghai and its surrounding areas. Shanghai is located in China's eastern region, at the confluence of Yangtze River and Huangpu River as part of the alluvial plain of the Yangtze River Delta. (Ren Ren, Referred 25.5.2013)

Shanghai was just a fishing and textile handicraft town before 19th century. In 1842, "Nanjing Treaty" signed, Shanghai became China's port open to foreign trades. Soon, it becomes the center of East-West trade exchanges. To the 1930's, Shanghai became a multinational hub in trade and business of the Asia-Pacific regions, known as the "Paris of the East". However, after 1949 almost all foreigners left out of Shanghai, Shanghai then decline. After the reforms of 1990, Shanghai began to reproduce past downtown and it has become the largest economic center in China today. (Ren Ren, Referred 25.5.2013)

Today's Shanghai, China is not only important science and technology, trade, finance and information center, it is a place of international cultural exchange and integration. Shanghai has developed into an international metropolis, the world's important economic and trade center. Shanghai is also now an emerging tourist destination, due to its rich cultural heritage and

numerous historical monuments. Some proposals also put that Shanghai will become a global city in its future. Shanghai international mainstream media described it as "a model of the world's fastest growing economies." (Ren Ren, Referred 25.5.2013)

Beijing

Beijing is the capital of the People's Republic of China, one of the four municipalities of China. It is also Chinese national political, cultural and international exchange center. Beijing is located in the northern end of the North China Plain, connected with Tianjin and the rest of the city surrounded by Hebei Province. Beijing is China's second largest city, also China's total land and air transportation hub and the most important domestic and international exchange center. (Wikipedia, Referred 1.6.2013)

Beijing is a city with 3,000 years of history and 850 years as a capital. It is one of the four ancient capitals of China. Its strategic location is ideal for a political center. As early as 700,000 years ago, the Beijing Zhoukoudian area appeared primitive community "Peking Man". (Baidu Baike, Referred 1.6.2013)

Only a very few cities are in the world as long as Beijing as a country's political and cultural center. "Encyclopaedia Britannica" described Beijing as "One of the world's great cities", and asserted that "the history of the city is the most important component in China over the past eight century, regardless of whether a long history, almost all of the major architectures in Beijing have indelible ethnic and historical significance." The Forbidden City, Temple of Heaven, the Summer Palace, Beihai Park and so numerous monuments for the city add more gorgeous colors. (Baidu Baike, Referred 1.6.2013)

Today, Beijing has developed into a modern international metropolis. The financial Street has long been a veritable Chinese financial management center; Beijing Central Business District is the symbols of Beijing's opening-up and economic strength. Beijing is with its ancient and stylish new looks welcoming more than 147 million passengers per year. (Baidu Baike, Referred 1.6.2013)

Guangzhou (Canton)

Guangzhou is also known as Canton. Guangzhou was the only Chinese trading port open to foreign trades before 1841. At that time, Canton refers to the province, but locals only call the city the provincial capital, which is the reason why foreign people living in the city call it Canton. (Baidu Baike, Referred 2.6.2013)

In 2012, Guangzhou in China except Taiwan is ranked fourth (the top ten were Hong Kong, Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Chongqing, Suzhou, Chengdu, Wuhan) by its comprehensive competitiveness among 287 Chinese cities. Guangzhou as the window of foreign trades in southern china increases dramatically the amount of the foreign business people in recent years, especially from Africa and the Middle East. (Baidu Baike, Referred 2.6.2013)

Guangzhou is the main manufacturing hub of the Pearl River Delta, one of mainland China's leading commercial and manufacturing regions. In 2009, the GDP reached ¥911.28 billion (US \$133.5 billion), per capita was ¥89,498 (US \$13,111). (Wikipedia, Referred 2.6.2013)

Tianjin

Tianjin is one of the four municipalities of China, and the second biggest city in the North of China, the other Beijing. Tianjin is located in the North China Plain by the Bohai Sea, connected with Beijing. The population in Tianjin is more than 14 million. (Baidu Baike, Referred 2.6.2013)

Tianjin's GDP reached ¥1.12 trillion in 2011, an increase of 16.4 percent over 2010. The city of Tianjin recorded China's highest per-capita GDP with \$13,393, followed by Shanghai with \$12,784 and Beijing with \$12,447. (Wikipedia, Referred 2.6.2013)

Tianjin is transforming into a hub city for international shipping and logistics, modern manufacturing and research and development. Tianjin pillar industries comprise of electronic information technology, automotive, bio-tech and pharmaceuticals, metallurgy and petrochemicals industries. (Wikipedia, Referred 2.6.2013)

Shenzhen

Shenzhen is a major city in the south of Southern China's Guangdong Province, situated immediately north of Hong Kong. Because of the location the area became China's first—and one of the most successful—Special Economic Zones (SEZs). It currently also holds a sub-provincial administrative status, with powers slightly less than a province. (Wikipedia, Referred 3.6.2013)

The city of Shenzhen plays an important role in High-tech industries in China, financial services, exports, and maritime transport as well. Shenzhen is a testing point in China for the transformation of Chinese political system and the further open-up to foreign trade. In 2012, Shenzhen's annual GDP reached ¥1.295008 trillion and its economy still maintains rapid and healthy momentum of development. (Baidu Baike, referred 3.6.2013)

Suzhou

Suzhou is one of the most beautiful cities in East China, among China's top ten key tourist cities, which has more than 2500 year history and it has been one of the richest parts of China since the ancient times. It is located in the Yangtze River Delta, at southeast of Jiangsu Province. (Baidu Baike, Referred 3.6.2013)

Nowadays the economic development in this city is still fast because the projects it has are running well in the industrial parts of the city. The Suzhou Industrial Park (SIP) is the largest cooperative project between the Chinese and Singaporean governments. It is located in the east of the Suzhou Old City. (Wikipedia, Referred 3.6.2013)

Chongqing

Chongqing is the youngest one in the four municipalities of China, but it has the most population among them, which is more than 29.45 million people. The municipality was created on 14 March 1997, succeeding the sub-provincial city administration that was part of Sichuan province. The municipality is located in the northwest of Sichuan Province, at southwest China's Yangtze River region. It is connected with Hubei Province in the east, and Hunan province, Guizhou province in the south and west. (Wikipedia, Referred 5.6.2013)

Traditionally, due to its geographical remoteness, Chongqing and neighbouring Sichuan have been important military bases in weapons research and development. Now Chongqing becomes China's third largest centre for motor vehicle production and the largest for motorcycles. The city has also invested heavily in infrastructure to attract investment. The network of roads and railways connecting Chongqing to the rest of China has been expanded and upgraded for reducing logistical costs to attract more foreign direct investments (FDI). (Wikipedia, Referred 5.6.2013)

Chongqing's nominal GDP in 2011 reached ¥1001.1 billion (US\$158.9 billion) while registering an annual growth of 16.4%. However, its overall economic performance is still lagging behind eastern coastal cities such as Shanghai. The city still keeps its developing advantages in such areas as finance, chemical industry, Hi-Tech development, and industrial development in the China's policy of 'Western Development'. (Baidu Baike, Referred 5.6.2013)

Chengdu

Chengdu is another big city that is also located in Sichuan province, as Chongqing lies before its becoming a municipality. The population is more than 1.41 million people in 2012. (Baidu Baike, Referred 5.6.2013) Chengdu has a famous reputation of 'Land of Abundance' for its rich land, and it is also famous for its natural scenery.

Chengdu is one of the most important centres in western china for logistics, commerce, finance, science and technology, as well as a hub of transportation and communication. It is also an important base for manufacturing and agriculture and one of the favourite cities for investment. (Wikipedia, Referred 5.6.2013)

Wuhan

Wuhan is one of the earliest industrial cities (others: Tianjin, Guangzhou, Shanghai) in China. The population in this city is more than 1.012 million people. (Baidu Baike, Referred 5.6.2013) The people living in the city are also famous for their smartness in business, because of its business history and its location in central China.

Wuhan was sometimes referred to as the "Chicago of China, due to its key role in domestic transportation. It is also China's largest inland industrial and commercial city, with metallurgy, textiles, shipbuilding, manufacturing, optoelectronics, information, medicine, food, chemicals, and automotive industries. In 2008, Wuhan's GDP was more than ¥411 billion, until 2009 Wuhan completed GDP ¥462 billion. (Wikipedia, Referred 5.6.2013)

2.2 Overview of Chinese cosmetics market

In the past 20 years, the Chinese cosmetic market has been expanding steadily with an annual average growth rate of 13%. The market volume now reaches 19 billion US\$ and China has become one of the most important marketplaces of the industry in the world. It is expected to continue to grow annually at an average rate of 10% for the coming years. (Premium Beauty News, Referred 1.11. 2012)

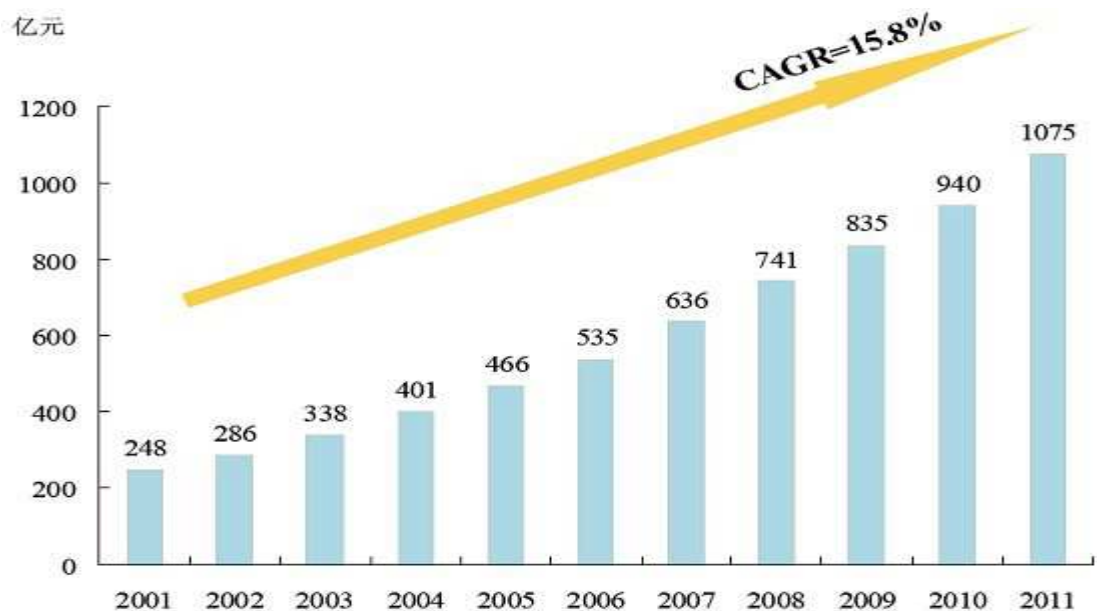


FIGURE 3. 2001-2011 Size and growth rate of Chinese cosmetic market in ¥ 0.1 billion (Chinese Industry Information, Referred 28.7.2013)

In 2001-2011, Chinese cosmetic market's Compound Annual Growth Rate is 15.8%, which became one of the fastest growing markets. As showed in the above chart, the statistics include the products such as skin care, sun block, colour cosmetics, perfumes and men's grooming products in Chinese cosmetic market. (Chinese Industry Information, Referred 28.7.2013)

The development of cosmetic markets in China has been through 4 stages: (Baidu Wenku, Referred 1.11.2012)

- Starting stage: At the beginning of 1980s, China's cosmetic market is mainly covered by the products from one Chinese cosmetic company in Shanghai. And the products are in general targeted for the low level of the market.
- Competitive Stage: From 1982-1996, international cosmetic companies entered into Chinese cosmetic market and took a market share from local Chinese cosmetic companies. However, foreign cosmetic companies focus on higher levels of the market.
- Developing Stage: From 1996-2002, the local cosmetic companies started to develop more well-targeted products for smaller segments of the market as a strategy for the development of the companies. And the markets seem more professionally divided and more choices for the consumer.
- Growing Stage: From 2002-now, this growing stage is both for the international cosmetic companies and the local Chinese cosmetic companies. The international companies are conducting products development strategies to enter lower levels of the market with stronger brand equities. In contrast, Chinese local cosmetic companies introduce more technologies and equipments to take a cut back from higher levels of the market.

Chinese cosmetic industry is one of the earliest industries that are open to foreign companies in China in the early 80's. So far, Chinese total cosmetic companies' amount reaches up to 5000 ones. Ninety percent of the companies are SMEs, and their market share amount for less than twenty percent. Only can one percent of the Chinese brands rise into the middle level of the market, the rest of the brands gather in the low level of the market. (Chinese Industry Information, Referred 28.7.2013)

The foreign cosmetic brands almost occupy all of market share in high-level market with their strengths of R&D and powerful international brands. The middle market is shared by the joint brands and Chinese domestic brands. The low market is occupied by Chinese domestic brands, which offer and meet the needs for daily cosmetic consumption. (Baidu Wenku. Referred 28.7.2013)

The Chinese domestic cosmetic categories are still at the beginning phase compared with the foreign cosmetics, which means a huge future potential in the market. At present moment, the cosmetic range of products involves: Hair care, Oral health, skin care, colour cosmetics, perfumes, and men's grooming products. Hair care and oral health supply best performances in domestic cosmetic market. In the field of skin care products, whitening and anti-aging products continues to drive sales growth, anti-aging products will be a growing area in near future. China's perfumes, colour cosmetics and the men's grooming products slightly slowly grow compared with other cosmetics. (Baidu Wenku. Referred 28.7.2013)

Due to the Chinese preference for whitening products, it is very common to find whitening ingredients in such products: firming creams, anti-aging creams and moisturizing creams. In such whitening skin care products as toner and cleanser, whitening ingredients are also added. Compared with the facial skin care craze, body care product sales are still not outstanding, which is mainly because skin care demand is mainly driven by facial whitening. (Baidu Wenku. Referred 28.7.2013)

2.2.1 The trend of Chinese cosmetic markets

In 2003, china had become the second-largest cosmetics market in Asia after Japan. At the same time, it has also been noticed that the performance of the market is still increasing by approximately 13% annually (Datamonitor, 2009). Additionally, given its population of approximately 1.3 billion, China has the largest market potential. "China's share of the global cosmetic market may seem small compared to huge markets like the US and Japan, but with a population of over a billion people, the growth potential there is staggering," said Lenka Contreras,

vice president and head of the Consumer Products practice for Kline's research division (Pitman, 2005). China's cosmetics market is still far from saturation.

Based on the current performance and the development of the cosmetic market in China, the market presents some trends that seem more obvious.

1. Increasing needs for high-end and luxury cosmetics

In China, one percent of the high-income group of people have increasing needs for high-end and luxury cosmetic products with their strong purchasing power. Plus, the middle class of the society is rising up very fast, which is extremely important for the cosmetic market because they are joining to the group pushing the growth in high-end personal cosmetic consumption. (Baidu, Wenku, 28.7.2013)

Moreover, women are always the main consumers of cosmetics, more and more consumer goods are targeted directly to the high-income group of women. High-income women are sensitive to the fashion, and strongly curious to try new products. They also put more attention to their personal style and taste, and they expect to highlight their personalities through their own choices of products. (Baidu Wenku, 29.7.2013)

2. High competition and smaller segmentations

Along with the rapid rise of Chinese economy, more and more international cosmetic companies realize the importance of Chinese cosmetic market and tap into it, which intensify the competition, bring higher marketing skills into Chinese cosmetic market and drive product diversifications to meet smaller segmentations of consumer market. (Baidu Wenku, 29.7.2013)

3. Importance of brand image

In the competition between the international and the domestic cosmetic companies, the Chinese companies find the importance of enhancing customer's loyalty and strengthening the brand image, which both rely on the quality of products. So, the development of branding depends on the quality and further development for entering brand management also base on the reputation of products' quality. (Baidu Wenku, 29.7.2013)

4. Men's cosmetics

Since men's cosmetics have entered to Chinese market in 2004, it has been changing men's consuming habits. The advertising campaigns with celebrity endorsements to promote men's cosmetics are heating up the market. Male consumers begin to understand that real men should be perfect from outside to inside. Male consumers gradually evolved from passive to active spending for such products as nourishing, sun block. Now, men's cosmetic market is booming in China. (Baidu Wenku, 29.7.2013)

Perfumes, as symbols of connotation and fashion, also have its popularity in China. Along with new products continue to emerge out of the fragrance market, features of consumer pursuits are also changing. Due to the improvement of the concept, more and more men's formal wear perfumes become a major preferred type, but the preferences are turning from previous partially spicy fragrances to natural light flavors. Currently, the men's fragrances generally pursue for the passion, talent, freezing point, exceeding, conquering, charm and sports. Positioning in the sports brand of perfumes is fashionable to young men and women who love sports, especially to the male consumers. As Chinese perfumes are still lagging behind in aspects of fragrances, fixative and aroma compared with the world level, demanding male consumers divert attention to the international brands. At present, the packages of the men's perfumes surpass by far the women's in Chinese cosmetic market. (Baidu Wenku, 29.7.2013)

5. Huge potential in cosmeceutical market

As the result of biochemical engineering, the worldwide new trend of the development for cosmetic products is focusing on the biological agents, biological active extract, and natural plant additive as raw materials of cosmetic products. (Baidu Wenku, Referred 30.7.2013)

After the financial crisis, Chinese cosmetic industry experienced a new opportunity of development, especially for cosmeceutical market. In 2009, China's cosmeceutical market rapidly grew with more than 10% growth rate, which is because the procurement of raw materials and the product sales for manufacturers provide a rare opportunity. Herbal-formulated skin care products in China have a long history. The cosmeceutical products have long been popular, because of its safe, natural formula and the effect is significant. With the trends for the natural,

safe and healthy skin care, the potential of cosmeceutical market is huge. (Baidu Wenku, 29.7.2013)

Chinese cosmetics market is undergoing an intense competition in all segments of the market, but low-priced goods still have a huge demand. Meanwhile, the requirements for high quality and better performance are also increasing, and the awareness and alertness from consumers and legislative bodies in terms of security is also improving. Therefore, cosmeceutical manufacturers need a greater amount of safe and economical raw materials. In addition, due to the request for sensual comfort, healthy appearance and natural raw materials is rising, manufacturers also need to produce genuinely natural products to meet market demand with low toxicity. With the concept of consumption continues to mature, the products with more safety and the high quality with lower price will become increasingly popular. Medicinal cosmetics under the environmentally friendly and non-polluting characteristics meet the market demand, both personal care and home care products. An organic, natural, additive-free whitening and skin care era, is the expectations for beauty safety and efficacy from all consumers. (Baidu Wenku, 29.7.2013)

2.2.2 Characteristics of Chinese cosmetic markets

1. The consumer market of cosmetics is vigorous and stably growing

With economy expanding and mass livelihood improving, awareness of personal well-being prompts strong and continuous growth in the consumer market. (Asia consulting, 2008) In recent years, the retails of cosmetics make more and more proportion in all retails of commodities. However, In Chinese cosmetic market skin care products still hold the most share compared with other cosmetic products. (Baidu Wenku, referred 27.7.2013)

2. Consumer groups are expanding

Females aged from 20-40 are still the main group of Chinese cosmetics market. National Bureau of Statistics of China has come up with data that shows women aged from 20-54 account for 27.21% of the total population. (HKTDC, 2009) The situation is changing slightly in recent years.

The consumer groups are expanding to elder females and younger females. In addition, more and more rural consumers join the purchasing power as well. (Baidu Wenku, referred 27.7.2013)

3. Increasing consumption for medium and high-end cosmetics

Working females, as the main group of cosmetic consumers, increase their expenses on cosmetic products, and they intent to choose more expensive products and higher brands. Besides, medium and high-class cosmetics are increasing their share in the cosmetic market with people's increasing concerns for health and beauty. And fashion males also join the consumer group. (Baidu Wenku, referred 27.7.2013)

4. Differences in cosmetic markets between Chinese coastal areas and inland areas

The different levels of development between Chinese coastal areas and inland areas lead to an uneven consumption in the cosmetic markets of the areas. With better living situation in the coastal areas, the percentage accounts for more than 60% of the total sales of cosmetics in China, while the middle areas 24% and the western 16%. However, along with the improvements of living standards in the middle and western areas, the potential for the growth of the cosmetic market is huge. (Baidu Wenku, referred 27.7.2013)

5. Diversification for selling channels

In recent years, department stores has faded out of the main selling channel of cosmetics, instead of more selling channels such as wholesale, specialized cosmetic stores, and franchising chain stores spring up, especially in smaller cities. Major domestic and foreign cosmetics brands are competing to take the franchising stores to dominate the market. Some investors take flexible counters combined with beauty salons. (Baidu Wenku, referred 27.7.2013)

2.2.3. Domestic cosmetics companies

The competition between Chinese domestic companies in the middle market is mainly conducted between several major Chinese domestic companies. Their market share is relatively stable.

大宝 (Dabao)

Dabao means 'Great Treasure', which is a household brand in China. Its first factory was established in 1985. Since then, 'Great Treasure' series of skin care products have appeared in the shelves of the cosmetics market. In 1990, the Great Treasure's 'SOD honey' and subsequent 'Beauty Cream' have become household products in Chinese low-class cosmetic market. (Baidu Baike, Referred 10.5.2013)

Beijing Dabao Cosmetics Co. Ltd. was established in 1999, which is its successful result of the joint-stock reform. In 2008, the brand and the company officially joined and became a member of the Johnson & Johnson family, after completing the transactions for the acquisition of Beijing Dabao Cosmetics Co. Ltd. on July 30. (Baidu Baike, Referred 10.5.2013)

Perfect sales network makes the "Great treasure" products everywhere. The company has developed a lot of promoting methods such as wholesale improved by retailing, the establishment of a large number of selling counters in department stores, and the marketing approach with Beijing as the stronghold. (Baidu Baike, Referred 10.5.2013)

In addition, the company established nearly 350 selling counters in the big department stores of Beijing and other big cities. With the selling counters of the supermarkets and convenience stores throughout the country the total amount has reached more than 3,000 counters to facilitate the purchase of the majority of customers, thereby blocking the proliferation of fake products. (Baidu Baike, Referred 10.5.2013)

Dabao Cosmetics is a combination of Chinese traditional medicine with the world advanced technological products. The Great treasure's products extend to the markets in the United States, Japan, Europe, the Middle East, North Africa and other more than 40 countries and regions. Besides, the company also establishes Great Treasure cosmetics stores in Russia, Switzerland, Sweden, Greece, Tunisia, Cyprus and other countries. (Baidu Baike, Referred 10.5.2013)

Now Great treasure is not only famous cosmetics brands, but also involved in the taxi industry, the advertising industry, training, hotels, as well as property management and so on. The company broadened the business area and enriched the image of the brand. In 2005, the total

sales of the company amounted to ¥ 791 million (including tax), and the net profit was ¥ 230 million. (Baidu Baike, Referred 10.5.2013)

隆力奇 (LONGLIQI GROUP)

Longliqi Group is established in Jiangsu province of China, which possesses a researching crew accounted to 30% of the staff. In 2003, the company sales reached RMB 2.5 billion, and the taxation was more than RMB 100 million. The company product lines include six series, such as cosmetics, household cleaning products, health care products, liquor, leather goods, and furniture. (Baidu Baike, Referred 9.5.2013)

In 1996, Longliqi Group involved in the cosmetics, but its original purpose for the cosmetic products is gifts for the consumer of health care products. Gradually, the demands for its cosmetic products increased considerably, which is the reason to push the company to develop its own cosmetic product lines. At the early developing stage the company absorbed plenty of successful experiences from the leader of Chinese low-class cosmetic market, Dabao. (MBA Lib, Referred 9.5.2013)

The success of Longliqi Group in cosmetic market lies in the focus on its core competencies - snake products. The popularization of scientific knowledge of the snake system highlighted the "snake biological purification" core competencies. Due to the successful operation of its health products has formed an impression of a snake-product expert in the minds of consumers, its subsequent cosmetic products with "high purity snake oil and precious snake bile" have thus gained recognition and deeply left a loafing brand image to the consumer. (MBA Lib, Referred 9.5.2013)

雅芳 (AVON)

Avon (China) co., Ltd. is American-Chinese joint venture with a Chinese company located in Guangzhou province. AVON Products, Inc. is an American company established in 1886. In 1990 Avon entered to China. Avon (China) Co., Ltd. has 74 branches that cover 23 provinces, 5 autonomous regions and 4 municipalities, with employees about 2,000 people. (Baidu Baike, Referred 1.5.2013)

The Avon production base is located in Guangzhou with the cumulative investment of more than U.S. \$ 60 million, which officially put into use in 1998. Avon (China) Co., Ltd. for the Chinese women provides hundreds of kinds of products, including skin care products, cosmetics, personal care products, incense, fashion jewelry, fashion underwear and healthy food. Its main sales channels in China are specialized stores and selling counters in department stores, transforming into retailing patterns. (Baidu Baike, Referred 1.5.2013)

羽西 (Yue-Sai)

Yue-Sai Kan Cosmetics (Shenzhen) Co., Ltd. is created by the famous Chinese-American TV producer, Ms. Yue-Sai Kan, with sole proprietorship in 1992. The cosmetic products of 'Specifically designed for Asian women!' are launched in Shanghai by Yue-Sai cosmetics.

In May 1996, Yue-Sai Kan Cosmetics (Shenzhen)Limited jointed cooperation with the world-renowned multinational cosmetics company – Coty, supporting fully with international standards in management, quality control, supply and marketing network, technology development and new product development.

美家净 (MAXAM)

Shanghai Jahwa United Co., the predecessor of the Department Jahwa Co., Ltd., is the first Chinese cosmetic company that goes public. The company is one of few Chinese cosmetic companies with international standards of research development and brand management capabilities, which can carry out all-round competition with multinational companies and local enterprises. (MBA Lib, Referred 3.5.2013)

Shanghai Jahwa United Co. issued to the public ordinary RMB 80 million shares in the Shanghai Stock Exchange on 15 March 2011. Until 31 December 2007, the total share amount accounted to 175,259,392 shares. In 2007, the company's operating income reached RMB 2.261 billion, and net assets of RMB 853 million. (MBA Lib, Referred 3.5.2013)

Shanghai Jahwa, as the largest production capacity in the domestic industry, is the first enterprise

involved in the legislation of national standards for China's cosmetics industry. The marketing network channels of the company cover more than 200 cities with the population of more than one million. (MBA Lib, Referred 3.5.2013)

As a leader company of Chinese daily chemical industry, Shanghai Jahwa create a series of famous sub-brands such as LIUSHEN (六神), Herborist(佰草集), CHINFIE (清妃), MAXAM (美家净) and Gf (高夫), thereby the company occupy a leading position in a number of key market segments. (MBA Lib, Referred 3.5.2013)

Shanghai Jahwa cooperates with many well-known international companies. The cooperation with Lion in technology, the production for Coty's Adidas personal care products in China and the establish of a joint venture with LVMH Group's Sephora, makes Shanghai Jahwa's further pace towards Internationalization. (MBA Lib, Referred 3.5.2013)

雅倩 (ARCHE)

Guangdong Arche Cosmetics Limited was founded in 1989, after ten years of entrepreneurship and development. The company has been in pursuit to achieve the dream of customers in the field of cosmetics and the development of the beauty. Arche has been oriented to customer values and customer satisfaction as the standard, dedicated to provide consumers with quality products and perfect service, to guide and to meet consumer demand. (Baidu Baike, Referred 3.5.2013)

Guangdong Arche Cosmetics Limited is a large well-known cosmetic company, and it covers a number of areas such as hairdressing, hair care, skin care and personal products. Its five well-known brands, BNS (缤丽), Ariar (清逸), CATHY(佳雪), EFFI (玉丽), MERO (名兰), has covered 34 provinces, municipalities and autonomous regions. (Baidu Baike, Referred 3.5.2013)

蝶恋花 (Dielianhua)

The Guangzhou Dielianhua Gene Engineering Co., Ltd., established in 1998, which involves in such areas as scientific research, cosmetics, pharmaceuticals, health care, culture and education, services of production, and trade. The company is committed to learn and transform domestic

and foreign high-tech innovations to upgrade and improve Chinese traditional skin care products industry. (Beauty Elite, Referred 2.5.2013)

Dielianhua currently has several well-known brands in the field of cosmetics, makeup, toiletries. Its skin repair product line of Energy and anti-aging product line of MakeMay are with a high reputation in the field. (Beauty Elite, Referred 2.5.2013)

The company sets up two wholly-owned brand sales management companies and five wholly owned sales and marketing companies and 80 sales agents in China, with more than 5,000 stores across all regions in China. Thereby the company has become one of the most powerful and influential cosmetic company and the most potential collaborators stated by international partners. (Beauty Elite, Referred 2.5.2013)

2.2.4 Foreign cosmetics companies

Although the current situation is not specially optimistic about products range for domestic companies, the room for high-end cosmetics product is still swiftly expanding in China, which is also the reason that foreign companies are trying to obtain more market shares in that market segment.

Usually the middle and low levels of the market is not the target for powerful foreign cosmetic companies. However, some of them have a limited product line in this segment to enrich their product variety. So, one cosmetics company could have several product brands that aim to different segments e.g. high, middle or low class of the market.

Below the major foreign cosmetics companies operating in China will be presented as well as their basic information of entering into Chinese cosmetics market.

L'oreal

One of the biggest professional players in the world, also in China, has very successful experiences to enter into China in this field. L'Oréal entered the Chinese mainland in 1996 and began its operations in 1997. According to Paolo Gasparrini, president of L'Oreal China, till the late 1990s, L'Oréal had very little presence in the country. There were only a few makeup counters in some stores in big cities like Shanghai and Beijing, the main purpose is to spread the image of the brand. (L'oreal China. Referred 1.11.2012)

Thanks to a successful acquirement of Maybeline, L'oreal can expand its business in China and penetrate their market more deeply with existing distribution channels of Maybeline. Until 2000, L'oreal has up to 870 stores in 50 cities and a factory worth \$30 million in the city of Suzhou. (L'oreal China. Referred 1.11.2012)

Now, L'oreal's business in China conduct smoothly, it will build a D&R department in china, which will be its fourth Development and Research department in the world. (L'oreal China. Referred 1.11.2012)

L'Oreal's success in China relies on such market promotion strategies as: merging drastically after the entering in China, successful pyramid brand strategy, effective sales promotion and person with ability internationalization. Although L'Oreal had achieved remarkable performance, but with intensive competition and changed environment of market, L'Oreal has to meet the serious challenge, such as, the international competitor which is numerous and become more powerful, the domestic Second-line market which is unacquainted, and the inner disadvantages of the company. Therefore, the essay is worked on research for the pointed resolve of these problems. Such as instituting the market promotion strategy which is aiming at the international competitors, marching into the domestic Second-line market roundly and strengthening the innovation of the inner company. Through unceasing hard workings it will consolidate and promote the market share to realize more achievement. (L'oreal China. Referred 1.11.2012)

Procter & Gamble

P&G is an American company, and its headquarter is located in Downtown Cincinnati, Ohio. It manufactures a quite wide range of consumer goods that include cleaning food products, laundry and personal cleaning products, health care, hair care etc. (Wikipedia, Referred 1.11.2012)

P&G, entered into China in 1988, built three factories. However, it has a limited product range of cosmetics in China. Its businesses focus mainly on shampoo and detergents. The cosmetic products, it manufactures in China, aim at skin-protecting products. Although its awareness of business is quite successful in China, the target group of cosmetics products is basically aimed at lower segment of market. (Wikipedia, Referred 1.11.2012)

Unilever

Unilever's history in China can be traced back to 80 years ago, when Lever Brother established its first operation in Shanghai in 1923 and became the largest soap maker in the Far East. In 1986, Unilever re-established itself in Shanghai, committed to building and maintaining a successful business, and a multi-local multinational in China. From 1986 till now, the breadth of Unilever's involvements in China include the investment added up to US\$1 billion and the introduction of many advanced technologies. The company created over 20,000 job opportunities with direct hiring more than 5,000 local employees and annual tax payment more than RMB 1 billion. (Unilever China, Referred 1.11.2012)

Unilever's business in China mainly covers two areas: (Unilever China, Referred 1.11.2012)

- Home and personal care. Major brands include OMO, ZHONGHUA, LUX, POND'S, CLEAR, DOVE, HAZELINE and REXONA;
- Foods. Major brands include LIPTON, KNORR, and WALL'S.

For further realizing its long-term commitment to China, Unilever has initiated its new strategic blueprint in China since 2000, i.e. developing Shanghai into its management and R&D base, and Hefei into manufacturing base. Unilever's manufacturing base for home and personal care products and tea products in Hefei started production in 2002. It has become one of Unilever's biggest production bases, exporting products to 14 countries. After China's accession to WTO, Unilever established a global supply management office in Shanghai. The office provides more opportunities for Chinese suppliers to export the raw materials to Unilever's overseas companies. (Unilever China, Referred 1.11.2012)

In 2006, Unilever headquarter office in China was completed in Changning District of Shanghai. It is also shared by Asia and Africa regions in some management function. In 2009, Unilever Global Research Building was put to use, just beside the China headquarter office. The new research centre covers more than 30, 000 square meters with an investment of nearly \$100 million. Its R&D in Shanghai focused on developing and delivering novel molecules and functional materials across all categories. The centre will deliver innovations made in China to the world and superior products to Chinese consumers. (Unilever China, Referred 1.11.2012)

Unilever believes that successful localization starts with the localization of employees. An outstanding local team can better understand and meet the needs of Chinese consumers. In Unilever, 90% managers are recruited and trained locally. (Unilever China, Referred 1.11.2012)

Shiseido Co. Ltd

Shiseido Company, Limited (*Kabushiki-gaisha Shiseidō*) is a major Japanese hair care and cosmetic producer. It is one of the oldest cosmetics companies in the world. Founded in 1872, it celebrated its 140th year anniversary in 2012. It is the largest cosmetic firm in Japan and the fourth largest cosmetics company in the world. (Shiseido China, Referred 3.5.2013)

The development of the cosmetics of Shiseido in China involves mainly three phases. Shiseido earliest step into China is the sales about 60 items as a response to a request from the city of Beijing in 1981. At that time, the items are basic cosmetic products and soaps for hotels. In 1983, Shiseido started to cooperate with the city of Beijing and establish a daily commodity factory in Beijing to enrich its product line in China. (Shiseido, Referred 20.7.2013)

Since 1991, Shiseido has started to create a locally exclusive brand, AUPRES, for meeting Chinese women's needs. And the brand became widely recognized as a national brand, after it is chosen as the official cosmetics for the Chinese athletes participating in the Sydney Olympics in 2000 and Athens Olympics in 2004. (Shiseido, Referred 20.7.2013)

Shiseido expanded with Chinese economy, one more factory in Shanghai in 1998 and Research Centre in Beijing in 2001. After 2004, Shiseido launched its URARA brand and started its

specialty stores business. As a result of steady efforts in China, Shiseido's products are considered to be high quality, safe, and reliable. (Shiseido, Referred 20.7.2013)

Estee Lauder Cos .Inc.

The Estée Lauder Companies Inc. is a manufacturer and marketer of skin care, makeup, fragrance and hair care products. The Company's products are sold in over 150 countries and territories under a number of brand names, including Estee Lauder, Aramis, Clinique, Origins, M.A.C, Bobbi Brown, La Mer and Aveda. It is also the global licensee for fragrances and/or cosmetics sold under brand names, such as Tommy Hilfiger, Donna Karan, Michael Kors, Tom Ford and Coach. It sells its products principally through limited distribution channels to complement the images associated with its brands. These channels include over 30,000 points of sale, consisting of upscale department stores, specialty retailers, upscale perfumeries and pharmacies and prestige salons and spas. (New York Times, Referred 19.4.2013)

Estée Lauder first entered China in 1993 and in 2005, the group opened a research and development centre in Shanghai. China is one of Estée Lauder's fastest growing markets. In fiscal year 2009, the company's sales in China grew nearly 30 percent. It is believed that in the next decade, China's beauty market could rival the size of the market in the United States. Other Estée Lauder Companies' brands sold in China are Estée Lauder, Clinique, La Mer, MAC, Bobbi Brown, Aramis and the licensed brands Tommy Hilfiger and Donna Karan. The products are sold in upscale department stores and perfumeries in 33 major Chinese cities. The company has also launched e-commerce sites in China for Clinique, Estée Lauder and La Mer. (Premium Beauty News, Referred 23.7.2013)

LVMH

LVMH Moët Hennessy • Louis Vuitton S.A., better known as LVMH, is a French multinational luxury goods conglomerate, headquartered in Paris. The company was formed by the 1987 merger of fashion house Louis Vuitton with Moët Hennessy, a company formed after the 1971 merger between the champagne producer Moët & Chandon and Hennessy, the cognac manufacturer. (Wikipedia, Referred 15.7.2013)

The LVMH group entered the Chinese market in 1992 with its first Louis Vuitton boutique in Beijing's Palace Hotel at a time when the Chinese market still had strict regulations concerning foreign companies and their product distribution. (Wiley 2010, 126)

Avon Products Inc.

Avon Products Inc. known simply as Avon is an American international manufacturer and distributor of beauty, household, and personal care products, which sells products through representatives in over 140 countries across the world. As of 2012, Avon had annual sales of \$10.7 billion worldwide. It is the fifth-largest beauty company and second largest direct selling enterprise in the world, with 6.4 million representatives. (Wikipedia, Referred 15.7.2013)

Avon enters China in 1990. Avon (China) Ltd has 74 branches covering 23 provinces, five autonomous regions and four municipalities, its employees approximately 2,000 people. Avon's production base locates in Guangzhou, which is a total investment of more than 60 million U.S. dollars, in 1998 officially into use. Avon (China) Co., Ltd. for the Chinese women provides hundreds of kinds of products, including skin care, cosmetics, personal care products, incense, fashion jewelries, fashion underwear and healthy food. After 1998, China Avon strictly comply with government requirements, through specialty stores and other retail channels with the counter sales, and transformed into retail business model. (Baidu Baike, Referred 15.7.2013)

Johnson & Johnson

Johnson & Johnson is a U.S multinational medical-devices, pharmaceutical and consumer packaged-goods manufacturer founded in 1886. Johnson & Johnson is headquartered in New Brunswick, New Jersey. The corporation includes some 250 subsidiary companies with operations in over 57 countries and products sold in over 175 countries. (Wikipedia, Referred 24.7.2013)

In 1985, Johnson & Johnson established the first joint venture in China, thereby entering Chinese market. In 1992, the first fully-owned company established in Shanghai. So far there is more than 6000 working staff for Johnson & Johnson in China. Johnson & Johnson's Chinese business expands into the fields including consumer and personal care products, pharmaceutical products and medical devices and diagnostic products. (MBA Lib, Referred 24.7.2013)

KAO Corp.

KAO Corp established its business in 1887, main sales from American- produced soaps and Japanese soaps and imported stationeries. In 1993, KAO Corp entered into China, but the business could not conduct well at that time. In 2008, KAO Corp established its stock corporation in China, thereby systematically managing its three companies in China. (Sina. Referred 20.7.2013)

In August 1993, Kao's first enterprise in China - "Shanghai Kao Co., Ltd." was born in Shanghai, which began with the Chinese Kao consumers to share R & D results. Kao has hundred years of history in Japan, as a continuation of Kao in China are also adhering to the purpose of "create quality products," and focusing on careful analysis of the needs and lifestyle changes of Chinese consumers for product development. (Baidu Baike, Referred 15.7.2013)

After years of credit management, Kao (China) already has the banner "Biore", "Laurier", "Sifone", "Jie Ba", "Kao", "Runaway" and many other high quality brands, and its impressive performance in their respective fields. The support and trust of Kao from Chinese consumers began in 1995 to further expand its business in China to the chemical industry, and set up factories in Zhongshan, Guangdong Province. Kao fulfilled the localization of chemical raw materials by alone, with its newest research results. In order to strengthen its business expansion in China, Kao set up in Shanghai Kao (China) Investment Co., Ltd. in 2002. Furthermore, Kao introduced in 2004 high-end cosmetics "Sofina" (Su Fina) into China, which is successful in Japan, Taiwan and Hong Kong, so that more Chinese consumers can share this condensed cream of the best science for their skin. Later, Kao's Research and Development Center in China was established to further accelerate its process of localization. (Baidu Baike, Referred 15.7.2013)

Revlon Inc.

Revlon is an internationally renowned cosmetics company, career throughout Europe, the Americas, and Asia. As a professional marketing cosmetics, body care, fragrance and personal care products industry world leader, Revlon philosophy is to constantly charismatic, passionate

and innovative high-quality products at reasonable prices to the consumer. (Baidu Baike, 24.7.2013)

In 1996, Revlon entered Chinese market. However, its business in China failed until its fifth CEO in China make profits for the company. Revlon has more than 1000 counters in China, which are all situated in major department stores. (Baidu Baike, 24.7.2013)

2.3 Distribution channels

Formally, distribution channels are sets of interdependent organizations involved in the process of making a product or service available for use or consumption. They are the set of pathways a product or service follows production, culminating in purchase and use by the final end user. (Kotler & Keller 2006, 468)

In this part different types of distribution channels are reviewed and discussed to better understand Chinese cosmetic markets. And the characteristics of Chinese cosmetic markets are also discussed.

2.3.1 Types of distribution channels

In essence, companies have two options when it comes to configuring their international distribution systems: (Kotabe & Helsen 2010, 523)

1. A firm may decide to sell direct to its customers in a foreign market by using its own local sales force or through the internet.
2. A firm may decide to use the resources of independent intermediaries, most often at the local level.

Distribution channels that use intermediaries positioned between the manufacturer and customers in a distribution channel, can often have several levels and employ several intermediaries, each with its own specific purpose within the distribution channel. The use of

intermediaries can be a relatively easy, quick and low-cost entry strategy into a new foreign market, therefore their frequent use by many companies, particularly small-to-medium companies that do not have the resources to operate their own marketing and distribution system in a foreign market. Within a distribution channel, a firm can elect to go through one or more intermediaries. (Kotabe & Helsen 2010, 523)

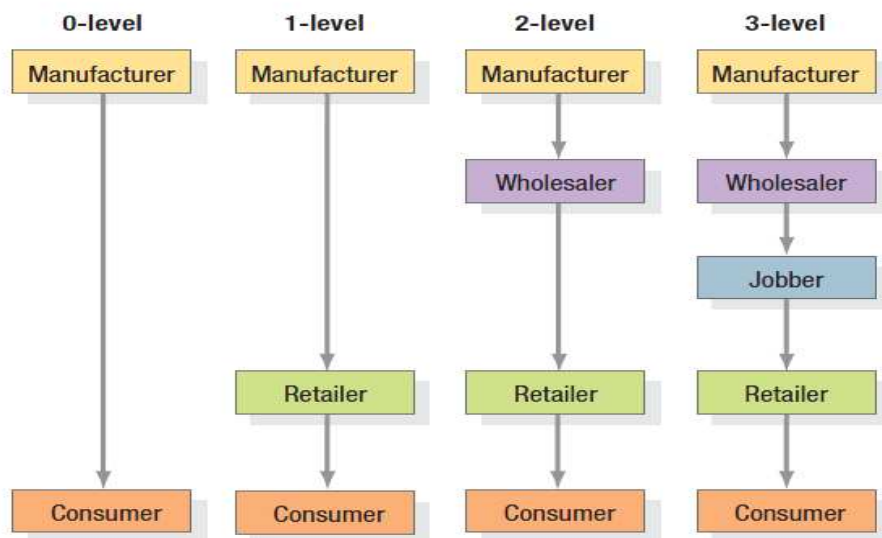


FIGURE4. Consumer Marketing Channels (Kotler & Keller 2009, 456)

A zero-level channel, also called a *direct marketing channel*, consists of a manufacturer selling directly to the final customer. A one-level channel contains one selling intermediary, such as a retailer. A two-level channel contains two intermediaries. In consumer markets, these are typically a wholesaler and a retailer. A three-level channel contains three intermediaries. Obtaining information about end users and exercising control becomes more difficult for the producer as the number of channel levels increases. (Kotler & Keller 2006, 474)

Although direct distribution by a firm may allow it to have complete control over all aspects of the marketing of its products, it brings significant cost issues. This is particularly true if the sale base is relatively small. Channel costs include the margins, markups or commissions payable to the various intermediaries. Although these costs may inflate a product's price in a foreign market, companies may be disappointed in believing that they can reduce channel costs by using a direct distribution strategy. Local costs associated with maintaining a sales force, inventory, providing credit and advertising may offset any cost savings. (Kotabe & Helsen 2010, 524)

In reality, most often, no one factor is more important than another in configuring an international distribution channel. A channel with optimum coverage and control at a minimum cost is the preferred choice but, in practice, a balance has to be struck. (Kotabe & Helsen 2010, 524)

2.3.2 Chinese distribution channels

After reviewing the different types of distribution channels in above chapters, it is easier to understand the current situation of distribution channels in china, and its characteristics:

three-level channel

In china a three-level channel could cause more variables that decrease the margin of the product or lead to different prices in markets, because of the over-reliance on the different levels of intermediaries. At the same time, a three-level channel has much higher requirement for the brand awareness of the product. (Baidu Articlebase, Referred 27.10.2012)

two-level channel

In Chinese cosmetic markets the two-level channel is the most complicated one, because the intermediaries between the producer and the end user are mainly self-employed wholesale merchants. Hence, transactions have a certain degree of secrecy, which give a chance to the fake, shoddy and incomplete licenses cosmetic products to get into the markets, although it has been improved significantly after several rectifications of the markets. (Baidu Articlebase, Referred 27.10.2012)

Due to the low controllability of the channel, it is extremely detrimental for the sustainable development of enterprises. But it is suitable for the enterprises to accumulate capitals and sell off the inventory. (Baidu Articlebase, Referred 27.10.2012)

The wholesale merchants on the operation of the well-known brands are generally willing to give up profits to maintain its path even with a small amount of operating expenses, but higher profit requirements for the unknown brands. (Baidu Articlebase, Referred 27.10.2012)

one-level channel

A one-level channel has less level between the producer and the end user. However, with this type of channel it is relatively slow to form the retailing network and also hard to complete, maintain the image of the brand in the end of the channel. Furthermore, providers of the product require higher margin, which is harder to control the price of the product. (Baidu Articlebase, Referred 27.10.2012)

zero-level channel

A zero-level channel is the shortest channel with a strong power of the control in the circulation of the product. It is also hard to form retailing network, but more stable. And this channel needs higher requirements of cost and management. (Baidu Articlebase, Referred 27.10.2012)

2.3.3 Major components of cosmetic sales channels

In China, major components of distribution channels for cosmetic market include: wholesaling markets; retailing markets such as department stores, supermarkets, warehouse stores, retailing stores, specialized stores, franchising chain, convenience stores; and direct selling markets.

1. Wholesaling Markets

Wholesaling markets are very important channels for cosmetic selling, and it is also a low-costed way for cosmetic manufacturers. Wholesaling Markets are suitable for retailers, individual consumers and small beauty salons to dispatch the middle and low classes of cosmetics.

Nowadays, the increasing competitions between cosmetic brands do not allow manufacturers to obtain and support more components in distribution channels, but focus more sources on the end consumers. Therefore, more and more cosmetic manufacturers offer products directly to supermarkets and warehouse markets.

2. Retailing Markets

- Department stores: The counters in department stores are special selling model for cosmetic products. Sales of cosmetics in department stores can be promoted by

displaying and reminding of products, meanwhile the brands images of cosmetics can also be improved.

- Supermarkets and warehouse markets: These kinds of supermarkets has been increasing considerably as selling channels of cosmetics, which attack the traditional selling channels by its bigger scale and stronger power of business operation. Especially, the international supermarket chains such as: Carrefour, Wal-Mart. In addition, supermarkets attract consumers by its 'one-stop' style of shopping.
- Franchising chains: The expansion of franchising chains is growing with remarkable speed in China, including international and domestic brands. The target of this kind of channel is final consumers, and franchisees can obtain higher profits with more flexibly competitive methods.
- Small supermarkets, convenience stores and retailing stores: Due to the locations in shopping and residential areas, it is extremely convenient for consumers to buy daily necessities and cosmetic products.
- Pharmacies: Pharmacies offer a new method for cosmetic products to distribute, and more and more manufacturers have noticed the method.
- Cosmeceutical stores: Cosmeceutical stores are the stores that offer beauty services, health and personal medical care.

3. Direct Selling Markets:

Apart from department stores, supermarkets and specialised stores, plenty of new sales channels spring up, which are such sales channels as direct selling, TV selling, post selling, automatic vending machines. (Baidu Articlebase, Referred 27.10.2012)

The diversification of sales channels is the inevitable requirement for brand diversification, hierarchical and efficient sales models. International brands have dabbled in various fields of sales channels, sales channel mix has been fully proved more conducive to product sales and

brand building. Consumers will also have more choices, when buying cosmetics. Buying experience will be also improved. (Baidu Articlebase, Referred 27.10.2012)

2.4 Market regulations

Requirements for finished cosmetic products

In China, companies must obtain Hygiene License or Record-keeping Certificate from the China Food & Drug Administration (CFDA), before they launch the finished products to Chinese market. If a manufacturer wishes to market their cosmetic products within China while they are located outside of China, they must obtain pre-market registration with the CFDA. Only the cosmetic products, which are compliant with Chinese law, can be permitted to import into China and sell freely. (Chemical Inspection & Regulation Service. Referred 2.7.2013)

And the foreign cosmetic companies must authorize a Chinese legal company to take charge of the registration procedure. The Chinese legal company is called Chinese responsible agency. The first time of the import of cosmetics into China faces tight regulatory controls, and the registration process is often complicated, time-consuming and costly. (Hehone International Enterprise Management Ltd. Referred 2.7.2013)

The Chinese authorities classify cosmetics products into two categories: ordinary cosmetics and special cosmetics. Each class requires different type of license from CFDA. And imported ordinary cosmetics are approved by food & drug administration authorities at a provincial level, while imported special cosmetics are approved by CFDA in Beijing. (Chemical Inspection & Regulation Service. Referred 2.7.2013)

Type of Product	Required License	Who Shall Apply?
Ordinary cosmetics hair care, nail care, skin care, perfumes and make-up	Record-keeping Certificate	A Chinese responsible agent appointed by a foreign manufacturer
Special use cosmetics products for hair growth, hair dye, hair perm, hair removal, breast shaping, fitness, deodorizing, spots removal and sun block	Hygiene License (More expensive and time-consuming)	
New Cosmetic Ingredient	Hygiene License	

FIGURE 5. Certificates of two types of cosmetic products (Chemical Inspection & Regulation Service. Referred 2.7.2013)

Requirements for ingredients in cosmetics

The companies have to register their new ingredients in their products, if the ingredients can be found in the list of the Inventory of Existing Cosmetic Ingredients in China (IECIC). However, a new ingredient might not require registration if the company can proof that it has already been used in the approved cosmetics in China. If a new cosmetic ingredient is to be imported into China on its own or in finished cosmetic products, the manufacturer of the new ingredient or finished cosmetic products must register the new ingredient with the Chinese SFDA. (Chemical Inspection & Regulation Service. Referred 2.7.2013)

And the Hygienic Standard for Cosmetics published by the Ministry of Health in 2007 has banned over 1200 chemicals in cosmetics and restricted the use of 73 chemicals, 56 preservatives, 156 colorants, 28 sun block agents and 93 dyes in cosmetics. Before companies apply for hygiene license or record-keeping certificate, the companies should make sure their formula meets this hygienic standard. (Chemical Inspection & Regulation Service. Referred 2.7.2013)

Generally speaking, the total application cost of hygiene license for new cosmetic ingredient is between RMB 80,000 and 100,000 per ingredient. The cost of record-keeping certificate for imported ordinary cosmetics is between RMB 10,000 and 30,000 per product. The total

application cost of hygiene license for imported specific use cosmetics is between RMB 20,000 and 60,000 per product. (Chemical Inspection & Regulation Service. Referred 2.7.2013)

3. Consumer behaviour and B to B purchasing behaviour

In this Chapter, the definition of consumer buying behaviour and B to B purchasing behaviour will be introduced. The differences between consumer buying behaviour and BtoB purchasing behaviour will also be stated below.

Business markets have several characteristics that contrast sharply with those of consumer markets: (Kotler & Keller 2006, 210-212)

- Fewer; Larger buyers. The business marketers normally deal with far fewer, much larger buyers than the consumer marketer does.
- Close Supplier-customer relationship. Because of the smaller customer base and the importance and power of the larger customers, suppliers are frequently expected to customize their offerings to individual business customer needs. Business buyers often select suppliers who also buy from them.
- Professional purchasing. Business goods are often purchased by trained purchasing agents, who must follow their organizations' purchasing policies, constraints, and requirements. Professional buyers spend their careers learning how to buy better.
- Several buying influences. More people typically influence business buying decisions. Buying committees consisting of technical experts and even senior management are common in the purchase of major goods.
- Multiple sales calls. Because more people are involved in the selling process, it takes multiple sales calls to win most business orders, and some sales cycles can take years.

- Derived demand. The demand for business goods is ultimately derived from the demand for consumer goods. Business buyers must also pay close attention to current and expected economic factors, such as the level of production, investment consumer spending, and the interest rate. In a recession, business buyers reduce their investment in plant, equipment, and inventories.
- Inelastic demand. The total demand for many business goods and services is inelastic—that is, not much affected by price changes.
- Fluctuating demand. The demand for business goods and services tends to be more volatile than the demand for consumer goods and services. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for plan and equipment necessary to produce the additional output. Economists refer to this as the acceleration effect.
- Geographically concentrated buyers. The geographical concentration of producers helps to reduce selling costs. at the same time, business marketers need to monitor regional shifts of certain industries.
- Direct purchasing. Business buyers often buy directly from manufacturers rather than through intermediaries, especially items that are technically complex or expensive.

3.1 Consumer behaviour

Consumer behaviour reflects the totality of consumers' decisions with respect to the acquisition, consumption, and disposition of goods, services, activities, experiences, people and ideas by human decision-making units over time. (Hoyer & MacInnis 2008, 3)

The many factors that affect acquisition, usage, and disposition decisions can be classified into four broad domains: (1) the psychological core, (2) the process of making decisions, (3) the consumer's culture, and (4) consumer behaviour outcomes. (Hoyer & MacInnis 2008, 10)

3.1.1 Factors influencing customer's buying behaviour

A customer's buying behaviour is influenced by cultural, social, and personal factors. Cultural factors exert the broadest and deepest influence. (Kotler & Keller 2006, 174)

Cultural factors

Culture, subculture, and social class are particularly important influences on consumers buying behaviour. Culture is the fundamental determinant of a person's wants and behaviour. The growing child acquires a set of values, perceptions, preferences, and behaviours through his or her family and other key institutions. (Kotler & Keller 2006, 174)

Each culture consists of smaller subcultures that provide more specific identification and socialization for their members. Subcultures include nationalities, religions, racial groups, and geographic regions. (Kotler & Keller 2006, 174)

Social Factors

In addition to cultural factors, a consumer's behaviour is influenced by such social factors as reference groups, family, and social roles and statuses. (Kotler & Keller 2006, 176)

Reference Groups A person's reference groups consist of all the groups that have a direct (face-to-face) or indirect influence on his/her attitudes or behaviour. Groups having a direct influence on a person are called membership groups. Some membership groups are primary groups, such as family, friends, neighbours, and co-workers, those with whom the person interacts fairly continuously and informally. People also belong to secondary groups, such as religious, professional, and trade-union groups, which tend to be more formal and require less continuous interaction. (Kotler & Keller 2006, 177)

People are significantly influenced by their reference groups in at least three ways. Reference groups expose an individual to new behaviour and lifestyle, and influence attitudes and self-concept; they create pressures for conformity that may affect actual product brand choices. (Kotler & Keller 2006, 177)

Family The family is the most important consumer buying organization in society, and family members constitute the most influential primary reference group. (Kotler & Keller 2006, 177)

Roles and Statuses A person participates in many groups- family, clubs, and organizations. The person's position in each group can be defined in terms of role and status. A role consists of the activities a person is expected to perform. Each role carries a status. (Kotler & Keller 2006, 180)

Personal Factors

A buyer's decisions are also influenced by personal characteristics. These include the buyer's age and stage in the life cycle; occupation and economic circumstances; personality and self-concept; and lifestyle and values. (Kotler & Keller 2006, 180)

Age and Stage in The Life Cycle People buy different goods and services over a life-time. Consumption is also shaped by the family life cycle and the number, age, and gender of people in the household at any point in time. (Kotler & Keller 2006, 181)

Occupation and Economic Circumstances Occupation also influences consumption patterns. (Kotler & Keller 2006, 181)

Personality and Self-concept Each person has personality characteristics that influence his or her buying behaviour. By personality, it means a set of distinguishing human psychological traits that lead to relatively consistent and enduring responses to environment stimuli. Personality is often described in terms of such traits as self-confidence, dominance, autonomy, deference, sociability, defensiveness and adaptability. (Kotler & Keller 2006, 182)

Consumers often choose and use brands that have a brand personality consistent with their own actual self-concept, although in some cases the match may be based on the consumer's ideal self-concept or even other's self-concept rather than actual self-image. (Kotler & Keller 2006, 183)

Lifestyle and Values People from the same subculture, social class, and occupation may lead quite different lifestyles. A lifestyle is a person's pattern of living in the world as expressed in activities, interests, and opinions. (Kotler & Keller 2006, 183)

Consumer decisions are also influenced by core values, the belief systems that underlie consumer attitudes and behaviours. Core values go much deeper than behaviour or attitude, and determine, at a basic level, people's choices and desires over the long term. (Kotler & Keller 2006, 184)

3.1.2 Chinese customer attitudes and preferences towards cosmetics products

Attitude

The consumer's attitudes can strongly influence the direction and the development in any industry. The consumer in China also leads the market in a substantial way. Besides, Chinese cosmetic market is fast growing and continuously changing toward a more mature market. The consumer's attitudes are also changing over time. (Cosmetic Merchants, Referred 9.6.2013)

With the continuous improvement of Chinese living standards, all kinds of cosmetics are becoming an integral part of daily consumer goods. In recent years, the share of imported cosmetic products in the Chinese consumer market continues growing, due to more and more Chinese consumers want to try the imported cosmetics. The most popular products of imported cosmetics are from United States, Japan, and France. (Cosmetic Merchants, Referred 9.6.2013)

At the same time, Chinese domestic cosmetics have been also quietly growing. It was attributed to the current concept of rational consumption. Some consumers no longer pursue expensive imported cosmetics, after trying the imported cosmetic products, while they turn back to the domestic cosmetics that are generally more suitable to them. Moreover, it is also linked with the impact of nostalgia. Plenty of Chinese old brands have been popular for decades, carrying the memories of one or two generations with a strong cultural heritage. Plus, most of the Chinese cosmetic products do not pursue beautiful packages, while more emphasis on the uniqueness of the formula. (Cosmetic Merchants, Referred 9.6.2013)

Preferences

In accordance with the characteristics of the China's northern and southern regional climate, customs, and cultural differences, people's preferences for cosmetics have obvious differences. In the South of China, because of high temperatures, it is generally less often for people to do daytime makeup, or they prefer to use a light ornaments. However, the northern climate is dry as well as cultural practices, so people generally prefer heavy makeup. Also, because of the differences in the economy, ideas, and even climate, people could have different requirements for cosmetics. (Case study base: L'Oreal enters to the Chinese market, Referred 9.6.2013)

Chinese consumer has always been considered fickle and keen to bargains. However, Chinese consumers are becoming more and more mature, and they are very loyal to their favorite brands. In favor of foreign brands or domestic brands, for different categories of cosmetics, the orientation of Chinese consumer's choice varies greatly. The consumer in china will buy more products from the brands they know. Even when the products from the brands have sold out for a while, they would not ask for other brands. From this point of view, the cosmetic manufacturers should perhaps think again about Chinese consumer's preferences. (Look Here, Referred 9.6.2013)

3.1.3 Purchasing patterns

In China the purchase decision is typically based on the usefulness of the product such as its physical characteristics and price value. However, recent studies outlined by Liang (Liang, 2008) suggested that women's purchasing pattern is changing. Their buying decision tend to influenced easily by the purchasing environment, and have more impulse purchase. Besides, generally speaking, females have strong self-awareness when purchasing, which means the majority of the decisions were made on the basis of personal preference or subjective impression, sensation. (Baidu Wenku, Referred 1.8.2013)

The modern Chinese female is particularly special consuming group. According to a survey conducted for the female consumer, fifty-six percent of female consumers will buy the objects with the influence of discount regardless of usefulness. (Baidu Wenku, Referred 1.8.2013)

3.2 B to B purchasing behaviour

The B to B purchasing behaviour or Business Buying behaviour can be seen as a decision-making process made by the Buying Center of the organization in different stages to establish the need for products and choose suppliers. (Kotler & Keller 2006, 210)

The *Buying Center* includes all members of the organization who play roles in the purchase decision process. (Kotler & Keller 2006, 183) Generally, the stages in the Buying Process include eight stages called buyphases. Supplier selection is also important in the buying process, usually the buying center will use a supplier-evaluation model to choose a desired supplier.

The eight buyphases in the buying process show below: (Kotler & Keller 2006, 183)

1. Problem Recognition. The buying process begins when some unit in the organization recognizes a problem or need for a good or service.
2. General Need Description and Product Specification. The buyer will determine the needed item's general characteristics and required quantity.
3. Supplier Search. The buyer next tries to identify the most appropriate suppliers through trade directories, contacts with other companies, trade advertisements, and trade show.
4. E-Procurement. Companies can do e-procurement through two types of e-hubs: vertical hubs (plastics, steel, chemicals, and paper) and functional hubs (logistics, media buying, advertising, energy management).
5. Proposal Solicitation. The buyer invites qualified suppliers to submit proposals.
6. Supplier Selection. The buying centre will choose a supplier with the help of supplier-evaluation model shown as below:

Attributes	Rating Scale				
	Importance Weights	Poor (1)	Fair (2)	Good (3)	Excellent (4)
Price	.30				x
Supplier reputation	.20			x	
Product reliability	.30				x
Service reliability	.10		x		
Supplier flexibility	.10			x	
Total Score: $.30(4) + .20(3) + .30(4) + .10(2) + .10(3) = 3.5$					

FIGURE6. An Example of Vendor Analysis (Kotler & Keller 2009, 225)

7. Order-Routine Specification. After selecting suppliers, the buyer negotiates the final order, listing the technical specifications, the quantity needed, the expected time of delivery, return policies, warranties, and so on.
8. Performance Review. The buyer periodically reviews the performance of the chosen suppliers.

3.2.1 Expectations for foreign partners

Partnership is a form of collaborative relation, especially important for international businesses. A successful international business is also strongly supported by its foreign partners. Therefore, finding strong foreign partners is essential work to operate overseas business successfully.

Along with the changes of Chinese economic situation, the attitude of Chinese enterprises is also changing for seeking the cooperating partners from the earlier entire acquisition to current desires for more choices in operation. However, the basic requirement from Chinese enterprises have not changed, which is looking for successful cooperation. Indeed, there were some lessons for Chinese enterprises to learn from the past failures of operation with foreign companies. (Baidu Wenku, Referred 9.8.2013)

The most important expectations for seeking business partners, especially operating in China, are to find the partners who can contribute an actual growth of business; who has more new technologies; who can offer more operating controls; who can offer more chances to train managing staff; and who can face and respond to the quick changes in marketplaces even in the organization. (Baidu Wenku, Referred 9.8.2013)

In the past collaborations with foreign companies, Chinese enterprises usually emphasize more on the growth of business regardless of profits, while the foreign companies put more attention on the profitability, even though the business grow slowly. (Baidu Wenku, Referred 9.8.2013)

New technologies are essential for the competition in the marketplace, Chinese companies really realize the importance of new technologies. And Chinese enterprises wish for getting more experienced managing staff from the operation of the business, thereby organizing a strongly competent managing team. (Baidu Wenku, Referred 9.8.2013)

Even though in more developed markets, collaborations could usually be reorganized in ten years, which means the market like Chinese market is full of uncertainty, therefore Chinese companies have to be prepared with upcoming situations from both markets and inside the organization. (Baidu Wenku, Referred 9.8.2013)

3.2.2 Negotiation

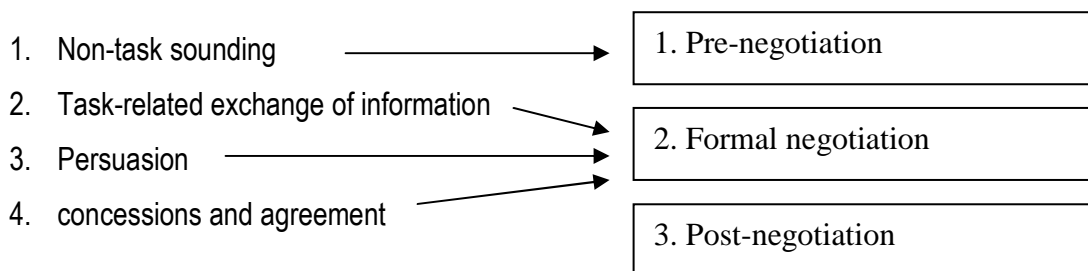
Negotiation is a mutual problem-solving process and a method of decision making that is used to resolve conflicts rather than an argument. Furthermore, negotiations are a two-way bargaining process where each party has something the other wants. (Dwyer & Tanner 2002, 221; Rugman & Collinson 2006, 386) Thus, negotiation is a voluntary process of give and take where both parties modify their offers and expectations in order to come closer to each other. (Ghauri 2003, 3)

3.2.2.1 Negotiation process

For the sake of analysis, a negotiation process is usually divided into several stages. Ghauri structures the international business negotiation process in terms of the pre-negotiation, negotiation and post-negotiation stages. These three stages influenced by factors such as culture, strategy, background, and atmosphere. (Ghauri 2003, 415)

Sino-Western business negotiation process

Based on the basic three stages of international negotiation process, Graham & Lin (1987) developed a four-stage model of Sino-Western business negotiation: (Ghauri 2003, 415)



However, this model does not cover the post-negotiation phase that is particularly relevant for the analysis of the Sino-Western business negotiation process. Combining these two international business negotiation process models, the Sino-Western business negotiation process can be divided into three stages from the Western marketers' perspective: (Ghauri 2003, 415)

1. Pre-negotiation (lobbying, presentation, informal discussion and trust building);

2. Formal negotiation (task-related exchange of information, persuasion, concessions and agreement);
3. Post-negotiation (implementation and new rounds of negotiations).

Pre-Negotiation

Lobbying Lobbying before the Chinese government authorities is one of the most important marketing activities facing foreign firms. Foreign firms must present a highly reliable image before the Chinese, making them feel safe to do business with them. (Ghauri 2003, 422)

Presentation Giving attractive and reliable presentations to let potential Chinese partners know the company, products and negotiating team members. (Ghauri 2003, 422)

Informal Discussion Initial and informal discussions with Chinese organisations often occur directly after the presentations. (Ghauri 2003, 423)

Trust Building The Chinese attach great importance to trust building in business negotiations. (Ghauri 2003, 423)

Formal Negotiation

Task-related exchange of information Formal negotiation starts when the Chinese show a strong interest in “further discussions” and both parties sign a “letter of intent”. The Chinese tend to send a formal document, informing the foreign party of the composition of the Chinese team and ideas for future meetings. (Ghauri 2003, 425)

Persuasion The Chinese use a variety of negotiating tactics to persuade the other party to do business their way during the formal negotiation sessions: flattery, identifying the opponent’s problems, shaming, deception and pitting competing foreign companies against one another. (Ghauri 2003, 426)

Concessions and agreement The formal negotiation ends with an agreement by the negotiating parties through their concessions or compromise. In this stage, the Chinese show a strong inclination to settle all suspending issues in a “package deal”. Agreement is almost always signed

in the presence of high-ranking officials from the government authorities and followed by a series of lavish banquets and ceremonies. (Ghauri 2003, 427)

Post-Negotiation

Implementation and new rounds of negotiations Empirical findings reveal that problems in negotiating with China also exist after the formal negotiations are finished, i.e. during the phase of implementation of the agreement. Generally speaking, the Chinese honor their contract; however, cases of Chinese non-fulfilment of their obligations do occur. (Ghauri 2003, 428)

3.2.2.2 Cultural aspects

Cultural aspects in negotiations include: (Ghauri 2003, 13)

Time In Asia, Latin America and Africa, time has no much value attached to it as in western culture.

Individual vs. collective behaviour It is important to have knowledge of this cultural attribute, as it will help us to understand the behaviour of the other party and to formulate an effective strategy.

Pattern of communication Different cultures have different communication patterns as regards direct vs. indirect and explicit vs. implicit communication.

Emphasis on personal relations Different cultures give different importance to personal relations in negotiations, so the emphasis on personal relations can be different in different negotiations.

3.2.2.3 Strategy and tactics

Presentation Negotiators have to know whether the presentations to be made are carried out in a formal or informal setting. It is also important to know whether issues can be presented in groups or whether each issue should be handled individually, whether presentations should be argumentative or informative, factual and to the point. (Ghauri 2003, 14)

Strategy There are several types of strategies in business negotiation. The important are tough, soft or intermediate strategies. In tough strategy, a party starts with a very high initial offer and remains firm on its offer and expects the other party to make the first concession. In soft strategy, a party does not start a very high initial offer and makes the first concession in the hope that the other party will reciprocate. In intermediate strategy, a party does not start with a very high initial offer and as soon as an offer is made which is within its realistic expectations, it accepts it. It is important to have information on the opposite party's strategy and to adapt one's own strategy to it and to have a counter-offer ready. (Ghauri 2003, 15)

Decision-Making Some information on the other party's overall decision-making pattern is necessary before going into negotiations. Does the party use impulsive or rational decision-making? Who makes the decisions? Do the negotiators coming to the table have the power to make final decisions or not? There are issues which are important to know in advance. In many cultures in Asia, decision-making is highly influenced by the importance of face-saving and influences the timing of decisions made. (Ghauri 2003, 15)

Bargaining tactics

Negotiators use a range of bargaining tactics, including promises, threats, rewards, commitments, and the use of self-disclosure, in their drive for a better deal. These tactics are often used in international negotiations. Effective negotiators learn how to use them and how to counteract their use by the opposition. (Rugman & Collinson 2006, 393)

3.2.2.4 Background factors

Background factors include objectives, environment, market position, third parties and negotiators, as beneath: (Ghauri 2003, 6)

Objectives are defined as the end stage each party desires to achieve. They are often classified as common, conflicting or complementary.

The *environment* refers to the political, social and structural factors relevant to both parties.

Most international business negotiations involve *third parties*, i.e. parties other than the buyer and seller, such as governments, agents, consultants and subcontractors.

Negotiators influence the negotiation process with their own experience and negotiating skills.

3.2.2.5 Atmosphere of negotiation

The relationship developed during the negotiation process between the parties is characterized by an atmosphere which is of fundamental importance to the process as a whole. The atmosphere and the process affect each other through interaction at each stage. Different characteristics of the atmosphere dominate from process to process, which are conflict / cooperation, power / dependence and expectations. (Ghauri 2003, 7)

The existence of both *conflict and cooperation* is a fundamental characteristic of the negotiation process. The magnitude of conflict or cooperation in the atmosphere depends upon the objectives of the negotiating parties. (Ghauri 2003, 7)

The *power / dependence* relation is another basic characteristic of all negotiation processes. It is closely related to the actual power relation, which is influenced by the value of the relationship to the parties and their available alternatives. (Ghauri 2003, 7)

The last aspect of atmosphere concerns two types of *expectations*, long-term and short-term. The long-term expectations are regarding the possibilities and values of future business. The short-term one is concerning prospects for the present deal. (Ghauri 2003, 7)

3.2.3 How to avoid typical mistakes in Western-Chinese business communication

The business communications between the Chinese and the Western people always show some differences in the way of doing business and the cultural aspects. Those differences could cause misunderstanding and even mistakes for the companies that are going to do business in China.

For example, Face and Guanxi are very important in Chinese business culture. Guanxi means the business connections or networks, which has to be maintained and developed for a long-term business relationship. Therefore, business starts very often with building relationships, rather than sitting by the table and talking about details directly. Moreover, Losing Face is the top thing for business people in China to avoid, which means disappointing people. In contrast, Having Face would make people feel proud of what they are doing.

Generally, gaining mutual respect is the key to managing relationships with Chinese business people. A genuine understanding of the other's position, an appreciation of the other's culture and achievements and a willingness to form a long-term give and take two-way relationship is necessary. Doing business with the Chinese is difficult if mutual trust and respect has not been achieved so make this your main focus. When you gain the respect from Chinese, you have all the potential for a long-term loyal business relationship with your Chinese counterparts. (Ezine Articles. Referred 10.7.2013)

More cultural differences and mistakes can be avoided in the process of doing business with Chinese, Such as:

1. Never hand out your business card or receive the other person's card carelessly or with one hand. When giving out name cards or brochures, make sure you start with the most senior person before moving down the line. When giving out a name card or receiving one, ensure that you are stretching out with both hands with the card. Remember to face the card you are giving out so that the receiving party gets it facing him/her correctly and can read at a glance. (Ezine Articles. Referred 10.7.2013)
2. Don't compliment anyone for speaking good English. Most decision makers had extensive international exposure abroad. It may also be taken as a sign you cannot find better things to compliment. (CIO, Referred 10.7.2013)
3. Business casual is not the fashion in China. Business transactions are not done over coffee in a pair of jeans. The Chinese can take quite a formal approach to business meetings and they will be dressed formally. (Simon & Simon, Referred 15.7.2013)

4. If you are bringing gifts, clocks, storks, cranes, handkerchiefs and anything white, blue or black are definite no-nos because of their association with death. (CIO, Referred 10.7.2013)
5. Personal contact must be avoided at all cost. It is highly inappropriate for a man to touch a woman in public. (CIO, Referred 10.7.2013)
6. Avoid embarrassing topics, such as acknowledging Taiwan's independence, freeing Tibet and Chinese human right issues. (CIO, Referred 10.7.2013)
7. Do not discuss business at meals. (CIO, Referred 10.7.2013)
8. Show deference if someone appears to be senior to you. (CIO, Referred 10.7.2013)
9. Allow the Chinese to leave a meeting first. (CIO, Referred 10.7.2013)
10. When dining with a group and taking food from a common plate, use the implements provided and not your own chopsticks or fork, and choose the items closest to you even if you prefer something on the other side of the plate. As a cultural courtesy, you should taste all the dishes you are offered, but do not eat all of your meal or they will assume you did not receive enough food and are still hungry. (CIO, Referred 10.7.2013)
11. When setting down chopsticks between courses, never place them in the rice-bowl standing up, as this resembles sticks of incense burned at a funeral and is considered highly inauspicious. Lay your chopsticks horizontally across the rim of the bowl or on the table. (Ezine Articles. Referred 10.7.2013)
12. Never get upset when someone asks personal questions about your age, marital status, income, and family background. This is rather common in Chinese culture. (Ezine Articles. Referred 10.7.2013)
13. Never circumvent or damage any referral relationship. In Chinese culture, all referral contacts should be respected and honoured. (Global MCN, Referred 15.7.2013)

The differences from the western way of doing business exist in business life in China, business people have to realize the existence and sometimes it is quite surprising. For example, western companies think that a contract is binding, but in China it is relationship based. Don't be surprised if the Chinese partners come back and want to re-discuss a clause, after you sign a contract. (CNN. Referred 10.7.2013)

The same kinds of misunderstandings also happen like below: (CNN. Referred 10.7.2013)

1. Miscommunication. China is a “high context” communication culture, which is to say the words used is the least important tool. The situation – how, when and who is saying what – speaks more than words.
2. Impatient. When it comes to doing business in China, the relationship comes first, business second. Some people joke that PRC stands for Patience, Relationship, and Contract. There's something in this. Many foreign companies are impatient and walk away too soon – missing out on valuable business opportunities. (Evan Carmichael, Referred 15.7.2013)
3. Confusing language skills with management or business skills. A good Mandarin or English speaker doesn't necessarily mean they have a head for business.
4. Managing by remote control. Western business people like to make deals eyeball to eyeball with people, but in China the decider is not present to the meeting sometimes.
5. Seeing China as one market. Western Companies need to understand that China is really many markets (just like Europe) with different characteristics.
6. Assuming that China is cheap. The days of cheap local labour and materials are gone. There are also many hidden costs in China, which are part of the investment you must make as part of building good relationships. Be unrealistic about this -and you will find that you go out of business quickly. (Bangkok Bank, Referred 15.7.2013)

7. Once the deal is done, don't just expect to do business entirely by email or over the phone. Nurturing relationships is just as important as building them and you will need to put in some face time and make trips to China. (Simon & Simon, Referred 15.7.2013)
8. Chinese staff will usually try to avoid conflict with their boss. Instead, make sure Chinese staff can feel free to approach the boss with concerns and problems. (Simon & Simon, Referred 15.7.2013)
9. Chinese executives will often say yes and nod during conversations, but this often just signifies they are showing you courtesy and listening rather than being in full agreement with what you are saying. (Simon & Simon, Referred 15.7.2013)
10. Do not undervalue Chinese local staff. To succeed in China, executives need a strong local management team and with the current strong demand for skilled labour. Chinese workers will leave when they feel undervalued. You must give them a good reason to stay. (Bangkok Bank, Referred 15.7.2013)

4. Methodology

The main research object for this thesis is to present the facts on Chinese market, and the current situation in Chinese cosmetic market as well as its potential trends in the near future. With the facts of the market, the commissioner of this thesis, Bio option Oy, can obtain the overall picture and information on how foreign companies can behave under the circumstances of Chinese cosmetic market. And another task is to find out the main foreign and domestic players in Chinese cosmetic market and their business activities. In addition, the available channels of distribution for cosmetic products are currently operating in China.

For solving the research problems, a qualitative research has been decided. Qualitative research is multimethod in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials case study, personal experience, introspective, life story, interview, observational, historical, interactions, and visual texts. (Jha 2008, 45)

The collection of secondary data was conducted as a main way to find the background information about Chinese cosmetic market and it is followed by telephone interviewing. Telephone interviewing is the best method for gathering information quickly; the interviewer is also to clarify questions if respondents do not understand them. The response rate is typically higher than in the case of mailed questionnaires. (Kotler & Keller 2006, 111)

A desktop search has been conducted for secondary data on the information of Chinese cosmetic market. Plenty of secondary data from internet sources has been introduced and processed. The data from the internet has mainly searched out of the official websites of the cosmetic companies and highly reliable information sources as well as government's statistical websites, due to the reliability is higher than informal websites and media. Although more information in English can be found on internet, which is introduced and quoted, major sources of information are in Chinese and translated into English. Especially, the materials form the Chinese article base of Baidu, which is famous for collecting academic articles and information for Chinese searchers.

Moreover, due to Chinese cosmetic market is booming at the present moment, more and more analysts from the cosmetic industry elaborate their opinions, expectations and predictions. A huge amount of repeated information is given on internet sources and the more needs of targeted data, then a telephone interviewing is decided to conduct for substantiating the information from internet and getting more update details about fast changing marketplaces. Unfortunately, telephone interviewing cannot be conducted with original purposes to get more information through the interviewing with professional marketers from Chinese cosmetic manufacturers.

5. Conclusions and recommendations

The main objective of this thesis is to find out the facts on Chinese cosmetic market, and its potential trends. By presenting the findings, the commissioner of this thesis can get an overall picture about Chinese cosmetic market and its major foreign and domestic players, thereby the commissioner will know how to behave in Chinese cosmetic market under current circumstances for entering or finding partners in near future. The other tasks are to find out the available distribution channels and Chinese companies' and consumer behaviours.

According to the current performances and potential trends of Chinese cosmetic market, there will be a high possibility to enter into it and operate successfully in China. Chinese cosmetic market is a booming market and it is far from maturity for coming years, which means that Chinese cosmetic market needs more new technologies and players with strongly competitive ability in the marketplaces. At the same time, the potential of the market is also attracted to more and more international cosmetic companies, which will tap into Chinese cosmetic market.

However, the Chinese cosmetic market is highly competitive for both foreign and domestic cosmetic manufacturers. Foreign companies are focusing on the high-end cosmetic segments of the market, while Chinese domestic companies are competing in the middle level of the market and the competition is getting more intense. Most of the Chinese domestic companies are gathering in the low level of the market, because small companies are more flexible in the operations of the businesses, therefore small companies have also plenty of room to compete in the market.

Based on the facts presented above about Chinese cosmetic market, two suggestions for the strategies to enter into Chinese cosmetic market can be reached. The first one is the method of entrance, and the second one is the location to start. Because Chinese cosmetic market is still on the developing stage, more and more foreign and domestic cosmetic manufacturers try to find their niche market segments and take more market shares, which means the competitive environment is getting intense and more chances can be found for the marketers of the companies. Due to the strengths of foreign international corporations, it is not suggested to make contacts, but Chinese domestic cosmetic companies are more eager to get more technologies and marketing skills to focus on smaller segments of the market and developing new products to

attract more customers. So, the cooperation with Chinese cosmetic companies is highly recommended for entering the market. Meanwhile, with the help of Chinese companies' existing distribution channels and the understanding of the local market, it is much more convenient for the entering process.

The second strategy for entering into Chinese cosmetic market is starting with populous cities, such as Wuhan, Chengdu or Shenzhen. Although these cities is smaller than the major cities like shanghai, Hong Kong or Beijing, the markets are also dynamic and supportive to the new cosmetic products than middle-sized cities that could take more time to get profits. On the other hand, the high-end cosmetic products are targeted and competing in the major cities, the situations of competition between both international corporations and domestic companies seem fairly challenging for entering. In addition, the presence in smaller cities can accumulate and improve the understanding of Chinese local markets for the further expansion into competitively tougher markets.

6. Discussion

The topic of the thesis is attracted to me at the beginning, because it is totally new and fresh compared with my field of studies. However, when I collect the data, I find overwhelming for the work I am going to do with this thesis, due to the lack of understanding in this unfamiliar field. Moreover, I need to figure out the structure for the thesis with my difficulties of finding and organizing data. Although plenty of information can be found from the sources of internet, the data and information is mainly organized in a informal format, which implies that a huge amount of repeated information need to be simplified and organized systematically.

After basic information has been collected, the writing of the thesis stalled for a period of time, which can be seen in the span of time for references, although the main parts of the thesis is completed at the same period of time. Thanks to the sources of information has been developing swiftly and improving, more and more articles and statistics in this field from formal websites and reliable information base can be reached. Meanwhile, with the help of my supervising teacher, Ms Outi Sutinen, the thesis makes progress so that I can finish it.

In the process of collecting data and finishing the thesis, the most valuable experience for me is conducting and organizing the information I searched, which help me to get more knowledge in this field and also improve my skills to do academic researches. From the beginning of searching data without any particular clue to finding information under the structure of the thesis, I get a better grasp of the process of learning. In addition, the communications with my commissioner, Mr Rasi, also give me more valuable ideas that support me and help to finish the thesis.

The problems I faced are the difficulties from getting contacts with professional marketers in Chinese cosmetic companies and my language skills to finish this thesis. Because the searched information is mostly in Chinese, translation is main part of my work to do after collecting data. Also, due to my limited vocabulary and professional terms needed in the thesis, I have to consult to dictionaries and online translating sources.

And I really appreciate for the help I received in the process of writing and finishing the thesis, which gave me valuable lessons and directions.

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