

L'Oreal Eats Into P&G's China Lead With Mushroom Lotions: Retail
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By Bloomberg News

March 22 (Bloomberg) -- At L'Oreal SA's Shanghai research center, more than 260 scientists working with skin cells and test tubes tailor products from lipsticks to shampoos for Chinese shoppers.

This year's offerings: a cosmetic balm for Chinese men looking to mask face blemishes, and skin serums made from white fungus, ginseng, and cordyceps -- a type of parasitic mushroom widely used as a herbal remedy.

The world's largest cosmetics maker is launching the new products to whittle away at Procter & Gamble Co.'s lead in China's market for beauty and personal care products, estimated to reach \$34 billion this year by Euromonitor. To gain an edge over its Cincinnati competitor, L'Oreal is counting on lotions using traditional medical ingredients and offerings targeted at Chinese men, among the fastest growing sections of the market. The strategy will help the Paris-based firm boost China sales more than 10 percent in 2013 from 12.05 billion yuan (\$1.9 billion) last year, China Chief Executive Officer Alexis Perakis-Valat, predicted in an interview. The new products will be unveiled later this year.

"L'Oreal has become a formidable competitor for Procter & Gamble in skin care," Oru Mohiuddin, a senior analyst in London at researcher Euromonitor International, said in an e-mail.

"Not just has L'Oreal approached China from various angles, including pricing and retail coverage, it also strived to make the brands more customized and effective."

Fighting Acne

The maker of labels from Lancome to Biotherm has been narrowing the gap with P&G in China's beauty and personal-care industry. L'Oreal's share of the market rose to 11 percent in 2011 from 9 percent in 2008, according to the most recent data available from Euromonitor.

P&G, which banks on home staples such as Olay and Gillette, lost 1.6 percentage points to 15.8 percent in 2011. L'Oreal is already ahead in skin-care, with a 15 percent share in 2012 compared with less than 10 percent for P&G.

The companies are fighting for shoppers like 24-year-old Shanghai advertising executive Corina Su, who has an extensive daily beauty regimen. As part of a determined battle against acne, she spent \$169 on a Clarisonic electric face brush made by L'Oreal. Her morning routine includes a herbal gel cleanser,

cucumber toner and avocado eye cream.

“Chinese people place a huge emphasis on beauty and skin care as they are especially afraid of aging,” Su said.

Stock Surge

L’Oreal’s stock has jumped 35 percent over the past year, compared with a gain of about 14 percent for P&G and a loss of 8 percent for Japan’s Shiseido Co. The Garnier maker trades at about 24 times this year’s estimated earnings compared with P&G’s 19 times.

China is the second-largest market for P&G, with sales of \$7 billion including daily goods such as Bounty paper towels in addition to personal care brands.

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

L’Oreal, headed by chief executive officer Jean Paul Agon, reported a 12 percent gain in last year’s earnings and said it is “well prepared” to outstrip the growth of the beauty market this year. It is likely to extend market share gains in China skin-care, Euromonitor’s Mohiuddin said.

China, which provides about 6 percent of L’Oreal’s annual revenue of 22.5 billion euros (\$29 billion), offers a window into how the French company is tapping new markets to boost growth as spending in Europe slows.

Playing Catch-Up

The company’s business benefited in China from the 2009 introduction of the Kiehl’s skincare brand that drew consumers looking for mid-priced skin-care products, according to Paul French, a Shanghai-based analyst at Mintel Group.

“In China, for a long time you just had your high and low end,” said French. “Kiehl’s, along with Korea’s Face group and L’Occitane, really opened up the mid-market range.”

Market share declines for P&G’s Olay brand in China also open opportunities for L’Oreal’s Garnier brand, which is in a similar, more affordable price range, Mohiuddin said.

“In China, P&G had been very successful, but then got complacent in terms of innovation and tried to consistently raise prices, leveraging its strong share position only,” said Ali Dibadj, an analyst with Sanford C. Bernstein & Co. via e-mail. “Eventually, competitors like L’Oreal and others caught up.”

While building global brands such as Kiehl’s and Garnier in

China, L'Oreal has added local lines. In 2004, it bought the Yue-Sai brand, which uses traditional Chinese herbs in its creams. Sales of that line rose more than 20 percent last year as buyers snapped up items such as a 50-milliliter jars of Youth Preserving Moisturizer for 210 yuan made with Ganoderma Fungi, or lingzhi.

White Fungus

The company will expand Yue-Sai on the mainland this year by selling more through online Chinese retailers such as T-Mall. The brand also plans a customized skin serum this year. Specially trained "beauty advisers" will chat with Chinese customers at store counters about their lifestyles and analyze skin types to mix up a moisturizer with ginseng, cordyceps and white fungus to meet an individual's requirements. "As needs are getting more and more sophisticated, and beauty is less and less one size fits all, you have to have an answer for very different needs," Perakis-Valat said. His company faces rising competition even as its China ambitions grow. Other global rivals such as Japan's Shiseido, Anglo-Dutch personal care company Unilever Plc and direct distributor Amway Corp. are diving deeper into the world's most populous nation.

Formidable Foe

It still faces a formidable competitor in P&G, the world's largest consumer products company, which had 2012 sales of \$83 billion. After lowering its profit projection three times last year, P&G in January raised its 2013 forecast amid a push to reduce expenses and cut jobs.

Part of the French company's success will depend on its ability to sell to men in China, where the male grooming industry will expand 13.4 percent this year, outstripping overall beauty and personal care by Euromonitor's estimates. The cosmetics seller plans to introduce L'Oreal Paris men's blemish balms after the success of so-called BB creams among Asia women.

"The exciting thing about China is that people don't really know what they want yet," said Mary Bergstrom, founder of the Bergstrom Group consultancy. "Consumers are so keen on finding the next big thing. Trends that you might not immediately think of working have the potential of working well in this market."

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