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BEAUTY & COSMETICS

Supplier capability in China

EXECUTIVE SUMMARY

China's beauty and cosmetics industry is continuing to cultivate alternative markets and embarking on capability upgrades to sustain growth, even as export projections for the year ahead are optimistic.

The global economic slowdown has not affected suppliers as heavily as it has other export manufacturing sectors in the country. This has not resulted in complacency among businesses, however, but actually drove many to intensify strategies to boost their competitive advantages.

At the fore is an increased emphasis on emerging economies. Suppliers believe there is greater room for expansion in such markets, particularly for OBM lines.

The following are some of the key developments we see in China's beauty and cosmetics industry:

- Companies are sharpening their focus on developing cosmetics that can match the skin tone and the base color of consumers in new markets such as South America and Asia. This is especially true for manufacturers that want to launch branded collections there.

- To strengthen their presence in emerging economies, several makers are establishing sales and R&D offices in target destinations. Doing so has enabled them to release products that meet the needs of consumers there.

- Despite the heightened focus on new markets, businesses will continue targeting traditional destinations. Among the respondents in Global Sources' survey, 85 percent indicated that the EU and North America will remain their primary export markets.

- Many operations are investing in advanced equipment to improve daily productivity by as much as 20 times. Computerized machinery is also expected to minimize wastage and enhance precision in manufacturing processes.

- R&D capability is being upgraded

as well. Several companies are now able to launch skin care and makeup containing mineral, organic or natural ingredients. Multifunction releases, including anti-aging and UV-protective cosmetics, are also becoming the mainstream.

China suppliers produce makeup for the eyes, face and lips, accessories such as bags and brushes, and nail and skin care. These are also the scope of this report.

Each product category has its own section with details on the features and prices of low-end, midrange and high-end models. The manufacturing and QC processes are discussed as well.

Further, the section elaborates on the industry composition, highlighting key characteristics of the different types of companies.

The Industry Overview illustrates how suppliers are responding to the combined challenges of REACH compliance and higher costs. Moreover, it explains how such measures have enabled businesses to boost efficiency and release targeted collections.

Roughly 90 percent of the beauty and cosmetics export manufacturing industry in China is comprised of small and midsize companies. Approximately 70 percent of all suppliers are private locally owned companies, and the rest have foreign participation or are state-owned.

OEM orders constitute more than 70 percent of overseas sales.

The provinces of Guangdong, Fujian and Zhejiang are the main production centers.

Reflecting this structure, 83 percent of suppliers profiled in this report are private local businesses. Eleven percent has participation from Hong Kong and Taiwan companies and the rest is foreign-invested. Nearly 40 percent of featured companies come from Fujian, 28 percent from Guangdong and 19 percent are from Zhejiang.

In this report

- 36 in-depth company profiles
- 8 additional suppliers
- 140 top-selling export products
- Supplier demographics
- Supplier survey
- Industry statistics & charts

METHODOLOGY

To produce this report, Global Sources surveyed a wide range of suppliers. Rather than focus simply on high-profile makers, we compiled a representative sample of large, midsize and emerging manufacturers. All profiled companies are export-oriented professional suppliers that may or may not be clients of Global Sources.

The selection of suppliers is designed to reflect the composition of the industry in China in terms of geographic spread, business type and company ownership.

For in-depth company profiles, our research teams interviewed senior executives and export managers who discussed their recent performance and provided price, R&D, production and export forecasts for the next 12 months. The interviews were done in person, by phone or e-mail.

In each case, companies were required to answer specific questions designed to verify their manufacturing and export credentials, including their production and export statistics, and a breakdown of exports by product type and market. Our production checklist details the product-specific manufacturing capability of each supplier.

All profiled suppliers participated in a survey designed to provide insight into product and price trends, and challenges facing the industry. All survey questions are single choice. Results were calculated based on the actual number of valid responses to each question.

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INDUSTRY OVERVIEW

China's beauty and cosmetics industry may not be as heavily affected by the global financial slowdown as other export manufacturing sectors in the country, but suppliers are nonetheless exploring alternative markets to help boost margins.

Companies are examining opportunities in emerging economies such as South America and Asia. Unlike in traditional destinations, makers have a greater chance of cultivating OBM lines there. While international cosmetic brands continue to have a strong foothold in these areas, buyers there are more willing to try newer trademarks for the right price.

In addition, export restrictions in these regions are generally not as stringent as in the US and the EU. This can save businesses thousands of dollars in testing fees, which they may end up spending to secure REACH certificates, for example.

To cultivate a presence in these markets, many suppliers are aggressively participating at trade shows that buyers from emerging economies are likely to attend. They are leveraging online marketing services, including e-mail campaigns, to generate interest for their products.

Larger enterprises are even setting up sales offices in their target export destinations. Doing so can help them identify the needs of buyers there and release collections that will address such concerns. In the color cosmetics line, for instance, several companies are now preparing to launch products that will match and complement the skin tone and base of consumers in their target markets.

Moreover, a handful of big operations are actively building relationships with domestic retailers with the hope of eventually distributing OBM lines there. Some are even taking this step further and now considering setting up their own outlets in major cities across the country.

REACH: Road to compliance

China suppliers of beauty products and cosmetics have started initiating preliminary measures toward REACH compliance, specifically preregistration and material testing.

An increasing number of companies have now been receiving requests from their clients for test reports certifying that products meet REACH regulations. Some ask for assurance that the items do not contain any of the 15 substances of very high concern enumerated in the first candidate list published by the European Chemicals Agency on Oct. 28, 2008.

Presently, only tier 1 suppliers are paying attention to the latest actions taken by the ECHA regarding REACH. Many of them claim to be ready to undertake any measures necessary, including the use of the

Supplier summary

| | |
|---------------------|-----------|
| Suppliers surveyed | 36 |
| Export sales | \$173.1mn |
| Export ratio | 74% |
| OEM business | 60% |
| Capacity utilized | 59% |
| Annual R&D spending | \$21.4mn |
| Full-time employees | 46,747 |

Data: All surveyed suppliers

Substance Information Exchange Forum.

Nearly all of the small and midsize businesses take such steps only when asked to do so by their buyers.

The regulation defines most types of fashion and cosmetic accessories as an article. For such products, makers need to identify any SVHC content and procure REACH compliance documents prior to shipping to the EU. Skin care and color cosmetics, however, are defined as a preparation.

Major customers

| Company | |
|-------------------------------|---|
| A&P Unico | Estee Lauder (France) |
| Chinamericanada | L'Oreal (Spain), Manor AG (Switzerland) |
| Dalian Meiyuan | L'Oreal, Shiseido (France) |
| Foshan Akia | Wal-Mart (US) |
| Foshan Nanhai Donghui | Hitachi (Japan), Kimo (France) |
| Foshan Sanshui Jinda | Boots (UK); Revlon, Avon (US) |
| Hangzhou Facecare | Mary Kay (US), LG (South Korea), Kose (Japan) |
| Hangzhou Mino Daily | Dollar Tree (US), Wal-Mart (Mexico) |
| Huanghua | Nivea (Germany), L'Oreal (France), Avon (US) |
| Jiangsu Longliqi | ALDI (US, Australia); Walgreens (US); Tesco, Marks & Spencer (UK) |
| Ningbo Ocean | Target (US) |
| Quanzhou Sandoo | Avon (US); Nivea (Germany); Lancome, L'Oreal, Vichy (France) |
| Sky | Kristine (US); GiftCraft (Canada) |
| Xiamen Uptex | L'Oreal (UK) |
| Yangjiang Fugi | Trimer, Avon (US) |
| Zhongshan Shangyang Precision | Maybelline (Germany) |
| Zhuoerya | e.l.f. Cosmetics, Natural Beauty (US); L'Oreal (France) |

Data: All surveyed suppliers

A&P Unico Ltd

Specializing in beauty and cosmetics, A&P Unico's total sales amounted to \$5 million last year. The selection includes makeup for the eyes, face and lips.

The 15,000sqm factory in Guangzhou, Guangdong province, has 450 workers. Among them are 10 QC technicians.

Running at full capacity, the ISO 9001:2000-certified plant produces 1 million pieces every month.

All output is exported, with OEM orders making up 50 percent of shipments. The balance is split evenly

between ODM and OBM transactions. The in-house brand is E-Look.

The Taiwan-invested supplier caters mostly to clients in North America, the EU, the Asia-Pacific region and the Middle East.

Every year, A&P Unico invests \$200,000 in product development.

Prices increased between 5 and 10 percent in the past quarter.

Export revenue is expected to remain flat in the next 12 months. In the same period, the company intends to keep capital expenditure at current levels.

Company facts

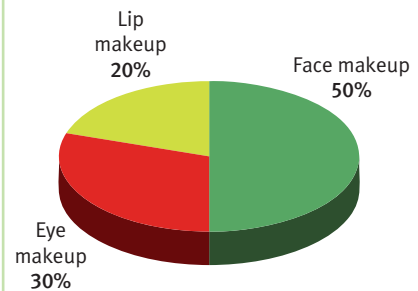
| | |
|-----------------------------|-----------------------|
| Year established | 1994 |
| Business type | Manufacturer |
| Company ownership | Taiwan-invested |
| Head office location | Taipei (Taiwan) |
| Number of factories | 1 |
| Factory location(s) | Guangzhou (Guangdong) |
| Total factory area | 15,000sqm |
| No. of full-time employees | 450 |
| No. of R&D/design staff | 1 |
| No. of QC staff | 10 |
| Annual sales (all products) | \$5.0mn |
| Annual R&D spending | \$200,000 |
| ISO certification | Yes |

Sales & output: Beauty & cosmetics

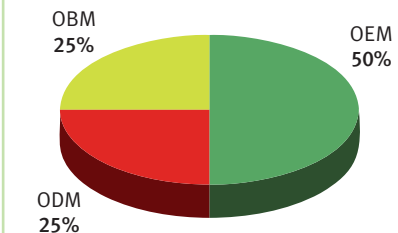
| | |
|-------------------------|-----------------------|
| Annual sales | \$5.0mn |
| Share of total sales | 100% |
| Annual export sales | \$5.0mn |
| Total monthly capacity | 1,000,000 pieces |
| Average monthly output | 1,000,000 pieces |
| Capacity utilized | 100% |
| Average monthly exports | 1,000,000 pieces |
| Export ratio | 100% |
| OEM % of exports | 50% |
| ODM % of exports | 25% |
| OBM % of exports | 25% |
| Major customers | Estee Lauder (France) |

Profile

Products made



Manufacturing profile



Contact details

Business contact

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Section 1, Taipei, Taiwan

Capability

Production checklist

| | |
|----------------------------|----|
| Assembly lines | 5 |
| Cutting machines | — |
| Filling machines | 50 |
| In-house material testing | No |
| Mechanical sewing machines | — |
| Mixing/blending machines | 3 |
| Plastic-injection machines | 50 |
| Powder-pressing machines | 60 |
| Punching machines | — |
| Shaping machines | — |

Exports by product

| | |
|------------------------|-----|
| Cosmetic bags & cases | — |
| Eye makeup | 30% |
| Face makeup | 50% |
| Lip makeup | 20% |
| Makeup brushes & tools | — |
| Nail care | — |
| Skin care | — |

Exports by market

| | |
|-----------------|-----|
| North America | 20% |
| European Union | 70% |
| Europe (non-EU) | — |
| Asia-Pacific | 3% |
| Middle East | 5% |
| Other | 2% |

Survey

- **Export prices**
Increased
- **Export price increase**
5-10%
- **Export sales**
Stay the same
- **Target market**
European Union
- **Capital expenditure**
No increase
- **Major challenge**
Cost of raw materials
- **Export capability**
Decrease product defects
- **R&D focus**
New/improved packaging

Popular export models



Face powder

| | |
|-----------|-----------------|
| Model | 0805 |
| MOQ | 10,000 pieces |
| Packaging | Buyer-specified |
| Delivery | 30 to 45 days |
| Price | \$0.90 |

Description: Sponge applicator; 5.7x9.1x2.3cm AS and ABS sliding compact; custom colors



Eye shadow

| | |
|-----------|-----------------|
| Model | 0815 |
| MOQ | 10,000 pieces |
| Packaging | Buyer-specified |
| Delivery | 30 to 45 days |
| Price | \$0.78 |

Description: Three-color powder eye shadow palette; three removable and refillable trays; double-tip brush and sponge applicator; 13.5x7.5x1.2cm AS and ABS compact; custom colors



Lipstick

| | |
|-----------|-----------------|
| Model | 1109 |
| MOQ | 10,000 pieces |
| Packaging | Buyer-specified |
| Delivery | 30 to 45 days |
| Price | \$0.35 |

Description: 2.1x2.1x 6.5cm AS and ABS tube; webbing loop; custom colors

PRODUCT GALLERY

Color cosmetics



A&P Unico
(profile page 38)
Model: 0815
MOQ: 10,000 pieces
Packaging: Buyer-specified
Delivery: 30 to 45 days
Price: \$0.78
Description: Three-color powder eye shadow palette; three removable and refillable trays; double-tip brush and sponge applicator; 13.5x7.5x1.2cm AS and ABS compact; custom colors



A&P Unico
(profile page 38)
Model: 0805
MOQ: 10,000 pieces
Packaging: Buyer-specified
Delivery: 30 to 45 days
Price: \$0.90
Description: Face powder; sponge applicator; 5.7x9.1x2.3cm AS and ABS sliding compact; custom colors



A&P Unico
(profile page 38)
Model: 1109
MOQ: 10,000 pieces
Packaging: Buyer-specified
Delivery: 30 to 45 days
Price: \$0.35
Description: Lipstick; 2.1x2.1x 6.5cm AS and ABS tube; webbing loop; custom colors



Hangzhou Facecare
(profile page 56)
Model: FC01192
MOQ: 10,000 pieces
Packaging: Carton
Delivery: 40 days
Price: •
Description: Loose powder foundation; mica, zinc stearate, silica and iron oxides; 5g jar with puff and mirrored lid, 48x50.14mm; in various colors



Hangzhou Facecare
(profile page 56)
Model: FC01215
MOQ: 10,000 pieces
Packaging: Carton
Delivery: 35 days
Price: •
Description: Lip balm; 10g spherical pot; in various colors



Hangzhou Facecare
(profile page 56)
Model: FC01227
MOQ: 12,000 pieces
Packaging: Carton
Delivery: 35 days
Price: •
Description: Lip gloss; isoocetyl palmitate and silica; 6g acrylic tube with mirror and LED-fitted cap, 17.5x102.3mm; 800hr LED life span; in various colors

• Information not disclosed

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