



CHEMICAL REACTION BY STEVE HERMAN

Open for Business

The cosmetic industry professional, from the bench chemist to an international marketing executive, must be aware of the circumstances of the industry in China.

"He who could foresee affairs three days in advance would be rich for thousands of years."

—Chinese proverb

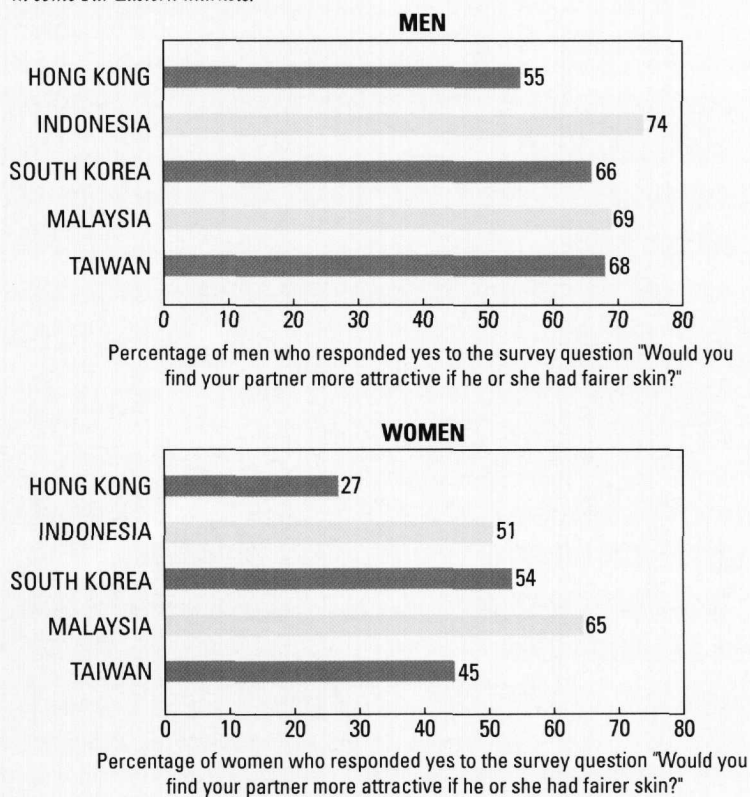
PREDICTING what will happen in the future of personal care, especially over a long time span, is risky business at best. Predicting where much of the activity will occur is much easier. There is little doubt that the next 20 years will be The Age of China. It is not merely the population of 1.3 billion people—India approaches that size, and no one places the future there. The key is a remarkable economic program developed—surprisingly enough to those in the West who grew up during the Cold War—by a communist regime.

China remains an enigma to most in the West. It is difficult to understand the recent developments there without visiting the great cities of the Eastern part of the country. Beijing, Shanghai and Guongzhou epitomize the new China, a world of growth and vitality that is astonishing. Equally impressive is the interior city of Xi'an, hardly known to foreigners, which—with a population of six million—would rank as the second largest city in the United States. As always, the past is prologue, and a little history is needed to understand the miracle underway in one of the world's oldest civilizations.

China developed in relative isolation, with the Himalayas to the west, jungle to the south, the

FIGURE 1. AMI FAIR SKIN STUDY

The Asian Market Intelligence Report (AMI)¹ studied the importance of fair skin in some Far Eastern markets.



Pacific Ocean on the east and the Gobi Desert and barren plains in the North. A small path from India allowed Buddhism in, and the Silk Road terminating in Xi'an brought in some cultural influences from Europe and the Middle East. The Great Wall protected the largest gap in China's protective armor, a long stretch in the north. For most of its history, an Emperor and a large bureaucracy ruled China. A

century of encroachment from America, Europe, Russia and Japan culminated in the fall of the imperial system in 1911. After internal turmoil, a harsh occupation by Japan during World War II and a civil war, the communists under Mao Zedong came to power in 1949.

The communists provided stability after the turmoil of war, but Mao made two large miscalculations. The Great Leap

There can be little doubt that the next 20 years will be The Age of China.

Forward of 1958 was intended to revolutionize the economy, but resulted in severe famine with much loss of life, and the Cultural Revolution of 1966 targeted government and intellectuals, plunging the nation into almost total anarchy. Mao met with Richard Nixon in 1972 to begin the process of normalizing relations with the United States, and the death of Mao in 1976, followed by the assumption of power by Deng Xiaoping, led China to where it is today.

Modern China is a nation of strong contrasts, of yin and yang: the great cities coexist with a huge rural population; there is an enormous gap

between the rich and poor; and a capitalist economy operates under communist politics. Two important factors are encouraging optimistic foreign business: a large and growing population of middle-class consumers and the surprising ability of the Chinese economy to survive economic storms that have hit other areas in Asia and the rest of the industrialized world.

Skin care, hair care, antiperspirants and deodorants, and powder makeup dominate the personal care market. Many young women dye their hair, an act inconceivable in the old China. Skin lightening is a major category, and a recent Asian Market Intelligence Report (AMI)¹ studied the importance of fair skin in some Far Eastern markets (see Figure 1), which found that men are more likely to want fairer skin in their partners. Market penetration is deepest in Hong Kong, where 38 percent of women use lightening creams. The same study indicated consumers were wary of lightening creams after the January health scare where nearly 300 women were tested for mercury poisoning attributed to Youdi Eliminator Freckle Cream and several other brands also suspected of high mercury levels. Of course, the lightening products in Asia are not based on hydroquinone like in the United States.

The high level of technology brought to China by the large multinationals is not matched by the local industries, but this is changing. Brand identity is evolving, with a trend toward Chinese companies establishing

strong loyalty. The five brands with the highest loyalty ratings are now all Chinese, beating international competition from McDonald's (7th), The Coca-Cola Company (9th) and Kentucky Fried Chicken (10th).² Companies entering the market must be prepared to face stiffer challenges than they have in the past.

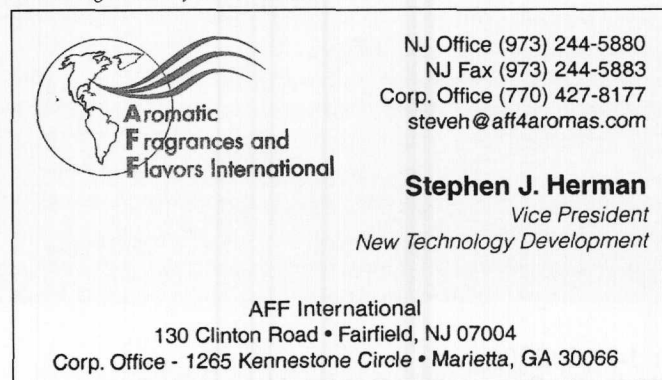
Amway and Avon, prohibited from direct marketing, have opened retail stores to capitalize on the recognition they have developed in China. Prestige brands such as Estée Lauder and Chanel can be found in the upscale malls dotting the major eastern cities, and thousands of small shops provide domestic products to the average consumer. The intensity of activity at every sales level is incredible now and will only increase in the foreseeable future.

It is important for a professional traveling to China to have a business card with English on one side and Chinese on the other (see Figure 2). The Chinese are formal and respectful, holding their cards with two hands and presenting them with a bow. A challenge for Westerners is to find an appropriate Chinese name. Common first names can be found in dictionaries, but surnames must be translated phonetically. It is crucial that the phonetic version must not have an undesirable meaning in Chinese! Chinese counterparts take English names in a process that is entirely capricious.

A visiting professional may find a trip to China filled with uncertainties, as the level of

FIGURE 2. A BILINGUAL BUSINESS CARD

A: The English side of a business card.



B: The Chinese side of a business card.



understanding of the country, particularly in America, is very unsatisfactory. The urban areas likely to be seen by a businessperson, however, are modern, clean and exciting. Hotels catering to foreigners have satellite television, English language newspapers and business centers with Internet access. These items are not available to the general citizens of China, who are under far greater government control than outsiders.

There is no Society of Cosmetic Chemists for China, but some discussions on the situation are heard among Chinese industry leaders.

Cosmetic manufacture is not entirely concentrated in the cities, so organizing the entire industry has challenges, as does establishing an association of individuals under the current government guidelines.

The cosmetic industry professional, from the bench chemist to an international marketing executive, must be aware of the circumstances of the industry in China. Raw materials, formulas and finished products will be moving in both directions with increasing frequency. Foreign personal care business ventures in China will continue to confront a mixture

of challenges and opportunities, and its fluid social and economic climate will take many unexpected twists and turns in the coming decade. **GCI**

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- 1 Reported in Schwartz, Susan, "Men find fairer skin more alluring", *South China Morning Post*, March 19, 2002
- 2 Kronick S. and Pu L., "Adjusting to China's Market", *China Daily*, March 23-24, 2002

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