

CASE FIFTEEN

Shisedo: Channeling Cosmetics in China

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Case Objectives

- To identify the functions performed by distribution channels.
- To understand the rationale behind a company's choice of distribution channels.

Case Synopsis

- Shisedo was founded in 1872 by Arinobu Fukuhara and is the largest cosmetic manufacturer in Japan. It employs the use of a voluntary chain store system for distribution. This system helps Shisedo remain competitive against Western cosmetic companies and acts as an information medium to transmit the latest beauty information to Japanese women throughout the country.
- Shisedo first entered China in 1981, selling its products at tax-free department stores and hotels in the city which were accessible only to expatriates, foreigners and the local elite. They further penetrated the market by forming two joint venture companies, Shisedo Liyuan Cosmetic Company (SLC) and Shanghai Zotos CITIC Cosmetic Company (SZC). These companies distribute their products through department stores and cosmetic specialty stores through wholesalers. In 2003, Shisedo started selling its high-end toiletries by importing them directly from Japan through its Japan-based subsidiary FT Shisedo Company Limited.
- Shisedo has also replicated its voluntary chain store concept in China and engages privately managed cosmetic stores to sell its products under the Chinese joint venture SLC. In 2003, it opened a directly managed store in Shanghai to serve as the model for other privately owned stores that would be engaged to sell Shisedo's products.

Case Questions and Answers

Question 1

What are the functions performed by the distribution channels in cosmetic products?

How are some of these functions performed in Shiseido's operation in China?

- Distribution channels assist in the flow of cosmetics from producers to buyers by performing three basic functions: transactional, logistical and facilitating functions.
- The transactional function involves taking charge of the buying, selling and risk taking processes involved in the sale of cosmetics. They are experts in the buying and selling processes – with the relevant contacts, experience and infrastructure needed to move cosmetics from producers to consumers. For example, Shiseido benefited from wholesalers' contacts with retailers in China's departmental and cosmetic specialty stores, as they were able to place their new range of medium-priced cosmetics within easy reach of the relevant customers. Distribution channels assume risk by stocktaking, as they take ownership of inventories which may quickly deteriorate or become obsolete. Cosmetic specialty stores in China may obtain imported Shiseido cosmetics, running the risk of holding unsalable items if products spoil or go out of fashion.
- The logistical functions refer to the gathering, storing and dispersing of products in the distribution channel. The gathering process largely entails assorting, as products from various sources are brought together to better serve customers by providing variety for choice. This is apparent in the cosmetic specialty stores engaged by Shiseido; as such stores bring together great depth in cosmetic range, providing consumers with greater choice. Distribution channels also assist in storing, as they assemble and protect products to offer better customer service. Dispersing of products involves the matching of supply and demand by distribution channels before transporting products to retail destination. The process of bulk-breaking is frequently engaged, as intermediaries 'break' the large quantities of limited variety and re-distribute products to retailers at smaller quantities with greater variety. The wholesaler in Shiseido's China operations carries out this function, as this intermediary re-packages and re-distributes a variety of Shiseido's cosmetic products to the relevant retailers.
- The facilitating function is performed when they assist producers in making goods and services more attractive to buyers. Assistance is rendered in the area of display and presentation, as retailers take the burden of this function from producers. Departmental stores carrying Shiseido's cosmetics in China most likely perform this function, displaying the products to attract and engage consumers to try the products. Intermediaries also assist in providing

information and research to both producers and consumers as they are able to collect the latest information on products, competitive conditions, feedback and trends. One specific example of this is in the process of grading, whereby cosmetic specialty stores in China could rank Shiseido's products in relation to other brands, highlighting their unique features to help consumers as they make their purchasing decisions. Distribution channels also help with financing, making the purchase of cosmetics more viable by extending credit to their customers.

Question 2

What are the advantages and disadvantages of selling cosmetic products through door-to-door selling, specialty stores, department store counters, and supermarkets and hypermarkets? How will the use of these channels vary with target market segments and brand strategies?

- One advantage of door-to-door selling is that it tends to be perceived as a high value-added retail channel as it provides consumers with great convenience and personalized, full service. Retailers in this instance have the opportunity to explain their product or service in detail to consumers. One disadvantage of door-to-door selling is that due to its extremely mobile nature, it often has a very narrow product line as sales-staff carry a limited number of items from house to house. In addition, this method is extremely costly and it is difficult to manage inconsistency amongst staff. Most significantly, door-to-door selling tends to pick up a negative reputation of being pushy and bothersome, resulting in rejections even before the sales pitch.
- Specialty stores are ideal for marketing cosmetics, as consumers are presented with a great variety of a specific range of products. In addition, expert assistance is usually available as required. Retailers receive advantages from selling cosmetics at specialty stores as these stores have established reputations and a stable customer base. On the flip side, pricing policy in the specialty shop is slightly higher than that of department store counters or supermarkets/hypermarkets as products tend to be more unique and hence are not usually able to take advantage of bulk discounts. Producers who wish to use specialty stores must also deal with distribution and the increased competition between the different brands within the specialty store space.
- Department store counters offer a fairly broad product line, making it convenient for consumers to purchase multiple items. In addition, this channel also offers the convenience of location, given that department stores are usually located in areas which are easily accessible. Retailers gain from this arrangement as they can 'feed off' the good reputation of these large stores. They also benefit from the department stores' general advertising efforts, and from its prime location. However, limited counter space means that each cosmetic brand displays a limited range of products. As such, consumers may

- not be able to find their desired product. In addition, there will be increased competition from other cosmetic brands as they are placed in close proximity.
- Supermarkets and hypermarkets allow retailers to gain from a ready and extremely regular customer base, as people frequently make trips to their local supermarket/hypermarkets for perishable goods. However, there is very limited service for the sampling of cosmetics, limited range of products and the general impression of a supermarket/hypermarket (utilitarian in nature) is in conflict with the lush extravagance associated with the beauty industry.
 - Generally, the choice of retail channel follows lifestyle patterns of the target market segments, as the channel which has the most potential of capturing the target market would be employed. Brand strategies impact retail channel choice as each channel carries a 'personality' with it, and will 'impart' this to the product. For example, department store counters signal dependability and affordability.

Question 3

Why is Shiseido using voluntary specialty chain stores, besides their counters at department stores? What are the advantages and disadvantages for each retail channel? Which area should the company emphasize?

- Shiseido's employment of these two retail channels allows diversification of marketing through the practice of dual distribution. This allows them to target different consumer groups with the same basic product. Shiseido is now able to benefit from the focused nature of specialty stores. Also, using both retail channels assists in managing and reducing risk, thus improving overall efficiency.
- Department store counters provide consumers with a broad product line, convenient purchasing and location; whilst providing retailers with an established reputation and potential advertising. However, such counters have limited space and are closely surrounded by competitors.
- Voluntary chain specialty stores are reputed, accessible retailers. Retailers benefit from the stable customer base. All these help to construct a unique customer experience, building Shiseido's brand image. However, there is keen competition in this retail channel, both in price and product-offering.
- In the interests of creating a distinctive brand identity, the company should emphasize its voluntary chain specialty stores. Its' call for volunteer 'partners' does away with franchising legalities, creating a symbiotic relationship between producer and retailer. Additionally, their attempts to manage quality standards across many stores (through the setting up of a model store) could ultimately result in a more intimate relationship between Shiseido and its consumers, as they benefit from the personalized expert experience not always available at department stores.