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## **Background**

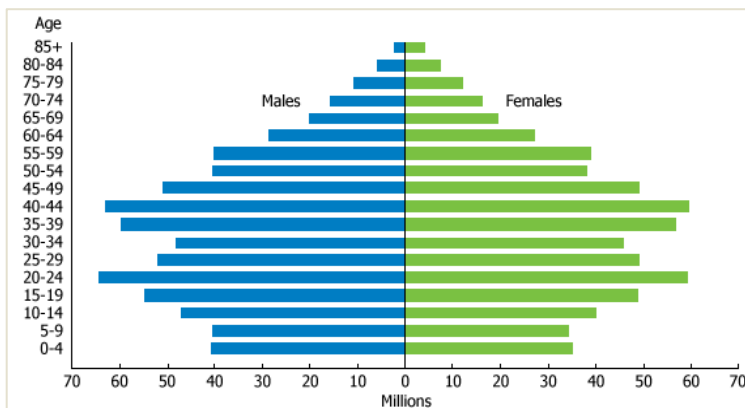
### Population trends<sup>1</sup>

China is the third largest luxury goods sector in the world, making the prospective market for cosmetic lines and skin care products very appealing. Consumers are not particularly brand loyal; they tend to purchase products that are a better fit for their skin regardless of the brand name. The fact that the target market is not brand loyal creates an opportunity for SK-II to re-enter the market and be successful.

All of these factors create an ideal environment for a skin care line to thrive. SK-II lost this market when the PR scandal of banned ingredients being found in SK-II caused P&G to pull the products. By re-branding and re-launching the SK-II skin care line in Mainland China P&G can gain back that market and become a top skin care brand in China.

### Census and Population Data <sup>2</sup>

The 2010 census reported the gross domestic product (GDP) of China was 8.3 billion USD in 2012, an increase of 7.8 percent, while China's Bureau of Statistics confirms its conversion to a free market capitalist economy raised the standard of living for the entire population. A recent trend is showing a steady migration from rural regions to the metropolitan areas by people seeking to share in the prosperity.



Income has steadily increased for urban households. In 2012, total income rose from 3,932 USD to 4,319 USD. The disposable median per capita income of urban households was 3,524 USD. The rural households saw a similar growth in pay. In 2012, rural income rose by 13.5 percent to 1,268 USD annually. The average

consumer in Mainland China spends about 150 U.S. Dollars (USD) monthly on cosmetics.

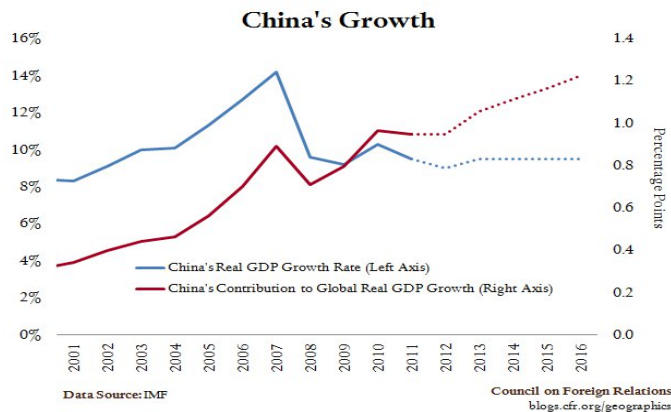
<sup>1</sup> <http://www.stats.gov.cn/english/>

<sup>2</sup> [http://www.stats.gov.cn/was40/gjtj\\_en\\_detail.jsp?searchword=income&channelid=958&record=5](http://www.stats.gov.cn/was40/gjtj_en_detail.jsp?searchword=income&channelid=958&record=5)

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By the end of 2012, the total population of mainland China was 1.4 billion, not including residents in Hong Kong, Macao SAR, and Taiwan. The male population was 694 million and female population was 660 million.<sup>3</sup> The working age population of 15-59 was 937 million.

The influx into urban areas will grow the base of consumers for an assortment of products, including skin care. Employment continues to show strong numbers with rising pay scales.



As stated above, the Chinese GDP continues to grow at a staggering pace; moreover, the contribution that China makes to the world economy is ten percent of the global GDP.<sup>4</sup> This is a rather favorable situation for product launching. All economic trends appear to be promising for business investments.<sup>5</sup>

## Chinese Government and Business Culture<sup>6</sup>

A key characteristic of China's culture, especially in business, is the concept of "face". A researcher describes, "Face as a mix of public perception, social role and self-esteem." Understanding this concept is important and has the potential to either destroy or help build relationships.<sup>7</sup> This philosophy applies to government and business relationships. In China it is common for a foreign CEO to give "face" by accepting invitations, attending meetings, showing sensitivity to Chinese culture, and providing expensive gifts.

Conversely, a CEO and their business can lose "face" by refusing invitations, not accepting or giving gifts, insulting someone in public, or is seen as having a lack of control; such as, losing his temper or crying.

It is imperative for an outside business to acknowledge local customs and adhere to the hierarchy— especially if state representatives are involved—when moving into the Chinese market. Being conscious of various degrees of cultural nuances will

<sup>3</sup> <http://www.prb.org/Articles/2011/china-census-results.aspx>

<sup>4</sup> <http://blogs.cfr.org/geographics/2012/01/>

<sup>5</sup> <http://academic.mintel.com.libproxy.uoregon.edu/display/627427/?highlight=true#hit1>

<sup>6</sup> <http://english.gov.cn/>

<sup>7</sup> <http://edition.cnn.com/2011/10/21/business/china-business-investors-culture>

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illustrate respect and sincere interest in doing business with China. This information will be beneficial when working on the relationship with the Chinese government and accomplishing our future objectives.

### **Situation Analysis**

On September 14, 2006, Proctor & Gamble's (P&G) skin care line, SK-II, had nine of its products banned by the Chinese government. The government said the products contained "unacceptably high levels of chromium and neodymium" that proposed health risks to consumers.

When the scandal first broke, P&G released a statement saying the amount of heavy metals found in the products was "safe" and "insignificant to human health" and conducted a retesting of the products. Consumers asked SK-II many questions concerning the health risks and felt as if they weren't receiving any answers. The tactics and strategies used by SK-II continually outraged consumers, the media and the government. Being that China operates under communist rule, the questioning and retesting of the products helped to reinforce the undermining of the government by P&G. As a result P&G now has a negative relationship with the government and consumers due to the lack of respect.

SK-II has the opportunity to rebrand itself in the skin care line market and create a new face of the company. This will create the opportunity for SK-II to regain the trust and support from the government, media and consumers.

### **Core Problem or Opportunity**

Loss of public trust in SK-II products caused loss in sales and ultimately removal of the SK-II product line. Due to the lack of brand loyalty in the current market there is ample opportunity to rebrand SK-II product line and ultimately re-enter the market. A consequence of not rebranding is ultimately losing the whole Chinese market.

### **Goal**

Successfully re-launch SK-II brand and maintain a positive relationship with the Chinese government, media and consumers to increase sales.

### **Strategy**

To implement our plan we are going to ensure the new SK-II skincare line is the best product both in quality and overall safety by conducting government approved testing of all products.

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## **Key Publics**

- **Government**

- 1) Mostly men, over the age of 50 and well educated.
- 2) Products can keep money in China because they are domestically produced, it will be beneficial for the administration to join in on creating jobs and helping the economy. They enjoy power, and by supporting the SK-II product line they are supporting the Chinese view of nationalism.
- 3) Negative. P&G questioned the government's test results of the product, when you are never supposed to question the Chinese government and showed a sign of disrespect. P&G has never issued an apology to the government.
- 4) Other government officials, Chinese citizens, media, and the economy as a whole.
- 5) Objective: Build a mutually beneficial relationship with the government by creating a policy for the testing of all cosmetic products.

- Primary message: P&G will develop a relationship with the Chinese government with open communication as well as full compliance with policies and laws.
- Secondary message: Foster a strong relationship among P&G, SK-II and the Chinese government and full transparency, especially in regards to product formulas.
- Strategy: Improve relationship with the Chinese government by increasing positive contact and communication with government agencies.
- Tactics:
  - Monthly meetings with local political leaders (first meeting deliver an apology)
  - Host three tours of facilities
  - Government approved product testing
  - Weekly updates to government about company proceedings via email

- **Chinese females under 40-years-old**

- 1.) Women under the age of 40. Upper or middle class who have disposable income to spend on cosmetics. Live in a growing economy.
- 2.) They are the consumers of the product and are directly affected by the ingredients that are in the SK-II skincare line. Chinese females use the product to see an improvement cosmetically.

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- 3.) Currently their relationship is negative and lacks trust due to P&G's response to the crisis and consumers are also concerned with the safety of the product.
  - 4.) Influentials include: their peers, other women who use SK-II; the media, and what they report on the SK-II brand; and retailers, public opinion leaders.
  - 5.) Objective: To regain 3.5 percent of sales by the end of the first quarter of rebranding launch. Following that, regain total sales, 7 percent, within 1 year of re-launch. Important to create awareness and change relationship.
- Primary message: SK-II values your opinion and trust you have in our brand.
  - Secondary message: Our number one priority is the safety of our customers. We will work vigorously with the government to guarantee we produce the highest caliber product.
  - Strategy: Seek government accreditation for all SK-II skincare line products and promote new cosmetics.
  - Tactics:
    - Giving out free samples
    - Host a free trial day-in stores with employees doing make-up of customers
    - Testimonial video blog of females under 40 using product currently and post on website and YouTube
- **Media**
    - 1.) Men and women between the ages of 25 and 50 years old, well educated and involved in numerous social media platforms.
    - 2.) Their self-interest is to report the news in an unbiased way to the audience. They report on the incidents that occur with SK-II and are instrumental in the flow of information between SK-II and its consumers.
    - 3.) The relationship between the media is present but strained. Blogs and other social media outlets created a nightmare for SK-II, thus created a strain between the media and SK-II. However, SK-II is reliant upon the media to deliver the news and accurate information about the re-brand of the SK-II skin care line.
    - 4.) Influentials include readers, subscribers and the company the publication is owned by, in this case, the communist Chinese government as well. The public influences the type of news and stories the media reports on.
    - 5.) Objective: Recruit three key journalists in China to cover the rebrand and re-launch of SK-II.
- Primary Message: Provide content for media publications.

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- Secondary Message: We are committed to creating a stronger relationship with the media through involvement in rebranding campaign.
  
- Strategy: Reach out to key media members and publications. Provide information about re-launch events.
  
- Tactics:
  - Invite selected members of the media to attend tours at our facilities to see how products are manufactured.
  - Give the media access to the new reports that state the ingredients in the new SK-II products.
  - Provide media kits to three recruited journalists.
  - Set up three meetings for selected media members to conduct interviews with prominent SK-II figures.

## **Evaluation**

- **Government**
  - If a policy is made, objective was a success.
  - If products receive approval, objective was a success.
  
- **Chinese females under 40-years-old**
  - On April 1, 2014, measure sales after the first quarter of rebranding launch; if we achieve 3.5 percent of sales in China, objective was a success.
  - On Jan. 1, 2015, measure sales after one year of rebranding launch, if we achieve 7 percent of sales in China, objective was a success.
  
- **Media**
  - If we successfully recruit three key media journalists by Dec. 1, 2013, objective was a success.

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