Eternal China

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— 2023 —

China Perfume Industry White Paper

Indulge in the Delightful Scent – Embrace the Fragrant Journey in a Post-Pandemic World

Eternal | KANTAR

China Perfume Industry White Paper

Contents

Forword

Preface

2023 witnesses China's economy on a mild recovery path after the pandemic setback. As daily activities multiply, Chinese consumers hold an overall positive outlook on the future macro-environment. Naturally, the profound and enduring impact of the past three years and an uncertain world have prompted consumers to seek inner spiritual fulfillment. Perfume, as a category with high emotional value, brings consumers a pleasant sensory experience and satisfies their "self-indulgence" needs, while enabling them to express their emotions. Hence, China's perfume market has a significant potential for growth and continues to be favorably regarded by all sectors.

As Chinese perfume consumers further segment, addressing the diverse needs and interests of different groups through customized brand and distribution strategies, and creating corresponding products, become imperative for all participants in the perfume industry. We note that perfume brands, raw materials R&D, fragrance connoisseurs and other parties are all working to better understand consumers and are exploring new strategies and directions. It is gratifying to see that all parties have found opportunities for business growth, promoting the recovery and development of the Chinese perfume industry.

Starting from 2020, Eternal publishes "White Paper on the Research of the Perfume Industry in China" every year, with the purpose of sharing the most up-to-date trends in China's perfume market with professionals and enthusiasts. With the lifting of COVID controls, Eternal has once again joined hands with KANTAR to release the "Indulge in the Delightful Scent - White Paper on the Research of the Perfume Industry in China" by drawing on interviews with experts both home and abroad, the latest industry data, and consumer research to delve into the trends of China's perfume market in the post-pandemic era. Meanwhile, we have got more cutting-edge insights from dsm-firmenich, a leader in the fine perfume field, on consumer demands and product trends. We hope the new White Paper of the year will inspire the readers.

"China's perfume market has undergone a transformative revolution. Over the past three years, the market has undergone a complete overhaul, from the overall brand landscape and consumer confidence to their preferences. As someone with 40 years of experience in the industry, I am not surprised by these changes, but I am astounded by the speed at which the Chinese market is changing."

—— Jean Madar, Chairman of the Board and CEO of Inter Parfums Inc.

"China is one of the fastest-growing markets globally, and the Z and millennial generations are instrumental in driving the rapid growth of the high-end fragrance market in China. Consistently exploring and experimenting with this category, young Chinese consumers are enthusiastic about using perfume to exhibit their individuality. In addition, high-end fragrances have progressed from being exploratory and experimental products for Chinese consumers to becoming a regular part of their daily rituals, resulting in a continuous increase in the perfume penetration rate in China. Therefore, brand owners, channel distributors, retail platforms, and other participants such as KOLs need to collectively promote the ways and reasons for using fragrances."

—— Olivier Viejo, Vice President of Fine Fragrance APAC, dsm-firmenich

"China's high-end market is destined to see the emergence of premium brands. The fragrance sector in China is becoming increasingly sophisticated, with brands honing their positioning and consumers more discerning in their choices. The task for Chinese perfume brands is to accentuate the uniqueness of consumers, enabling them to be identified and noticed."

—— Meng Zhaoran, Founder of DOCUMENTS

"The Chinese market evolved very quickly in the last 5 years. It was very dependent on western prestige brands with a lack of perfume culture. But now, there is a stronger interest in perfume, the focus is really on quality with an important focus on niche brands that are unisex, deliver more uniqueness, sophistication and experience with a strong story telling for the new generation.

—— Karim LISI, Vice-President of Business Development for Fragrances in the Asia-Pacific region, Symrise

"I am of the view that our goal is not to sell more fragrances to those who already use them, but rather to motivate those who have never owned a bottle to make their first purchase. They will soon discover that they can't help but indulge in the world of fragrance."

—— Piliwuzei, Experienced Fragrance Connoisseur & Leading Perfume Streamer on Douyin

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Part 1

Turning Inward:

New Themes in China’s Post-pandemic Consumer Market

With the lifting of all pandemic prevention and control restrictions, people are venturing out for socializing and travel and life is abuzz with vibrancy and excitement, gradually returning to its former pace. However, the three-year-long pandemic has had a profound impact on people's consumption habits and has also witnessed their shift towards an "inward-looking" mindset for self-discovery. Psychologically, consumers begin to reassess the link between the individual and society, prioritizing internal self-expression, and reconnect with life itself they return to the simple life. When it comes to spending, they are still prudent and rational, but have not compromised on their lifestyle standards. Rather, they aim for a better quality of life by adapting their consumption habits.

The main questions explored in this chapter:

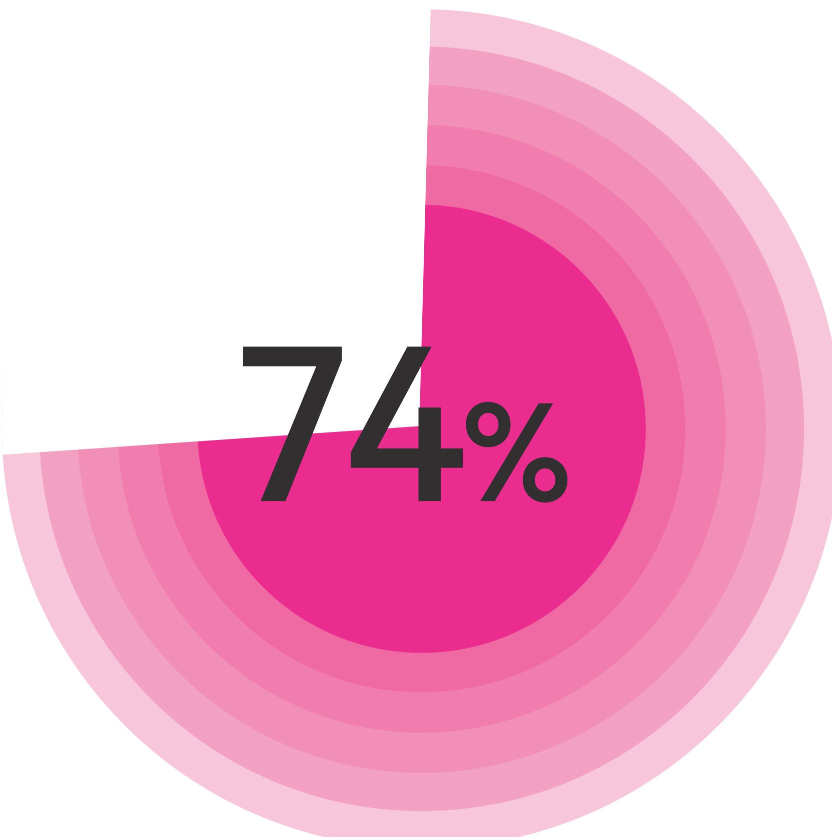
What new changes have emerged in consumer lifestyles and attitudes following the lifting of pandemic controls ?

- What new changes were observed in consumer behavior and mindset after the pandemic controls were lifted?
- Upon the lifting of pandemic restrictions, what new shifts in consumer behavior and mindset have been observed?

Content of this chapter:

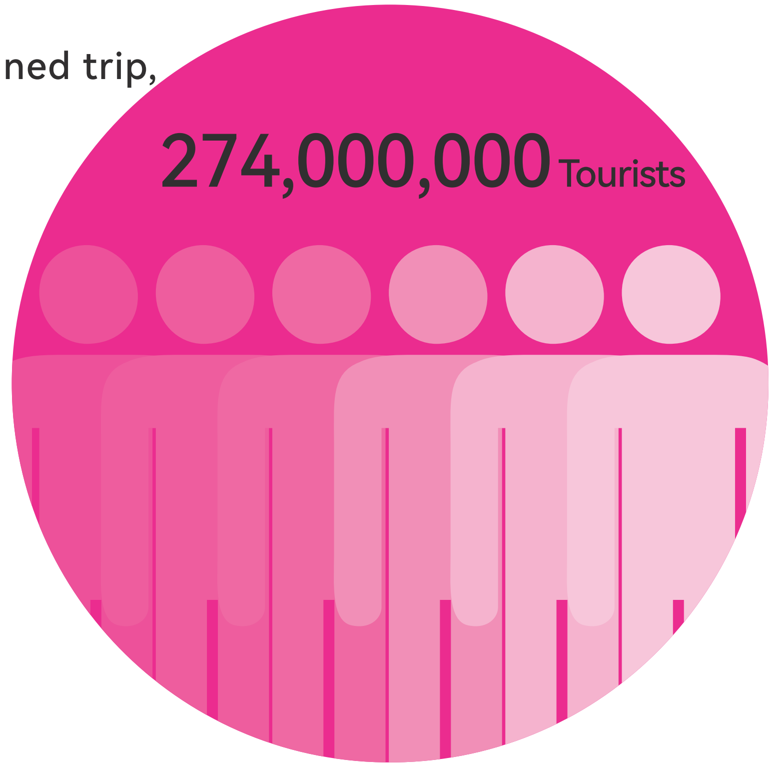
1.1

The most discernible shift in behavio—
enjoying the moment, embarking on an unplanned trip, embracing earthly vibrancy



01. Freed from pandemic constraints, Chinese consumers, long constrained, begin to “appreciate life and relish the present” . As per the results of this survey, 74% of consumers expressed a desire for more socializing, gatherings, travel and outdoor activities.

02.We have seen “travel commandos,” namely individuals who strive to make the most of their limited time and budget, maximizing their sightseeing efficiency. The Ministry of Culture and Tourism's data center has estimated that the total number of domestic tourists during the 2023 May Day holiday is around 274 million, indicating a 70.83% YoY increase and a recovery to 119.09% of the comparable level in the same period of 2019.



03.The trend this year has moved away from the pursuit of “poetry and far-off lands” to “savoring the excitement of life.” Mafengwo's big data analysis indicates that cities with distinctive regional characteristics, rich historical and cultural heritage, and diverse culinary offerings are more appealing to young consumers. According to the 2023 Top Lifestyle Trends released by Little Red Book, people are paying more attention to neighborhood relationships and community atmosphere and are participating in more community activities.

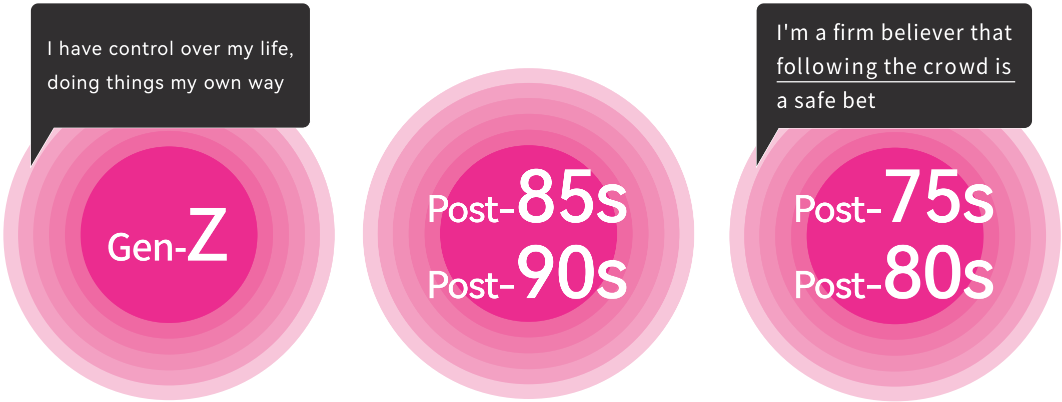
1.2

Diverse shifts in mindset— a reexamination of the requirements and connections between the “self” and the world beyond

01. From the “ideal self” to the “true self”

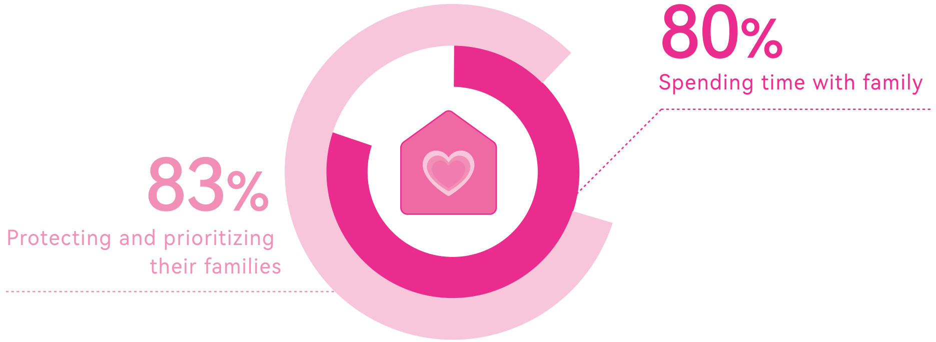
a. China has long been a society where group consciousness takes precedence over individual consciousness, and personal satisfaction is often tied to pleasing others. However, as the economy and society advance, an increasing number of people are choosing to return to their “true self” from the “ideal self,” with the Gen-Z digital natives exemplifying this trend. The report on “Digital Trends in the Chinese Luxury Market,” released jointly by Tencent Marketing Insight and BCG, notes that consumers born in the 1990s and Generation Z view buying luxury goods as a significant means of self-reward and self-expression, in contrast to socializing purposes among Generation X and Y.

b. The survey also revealed that more Gen-Z consumers tend to “follow their heart and approach things according to their own ideas,” as opposed to post-70s and 80s.



02. Reconsidering the connection between the individual and the societal ecosystem

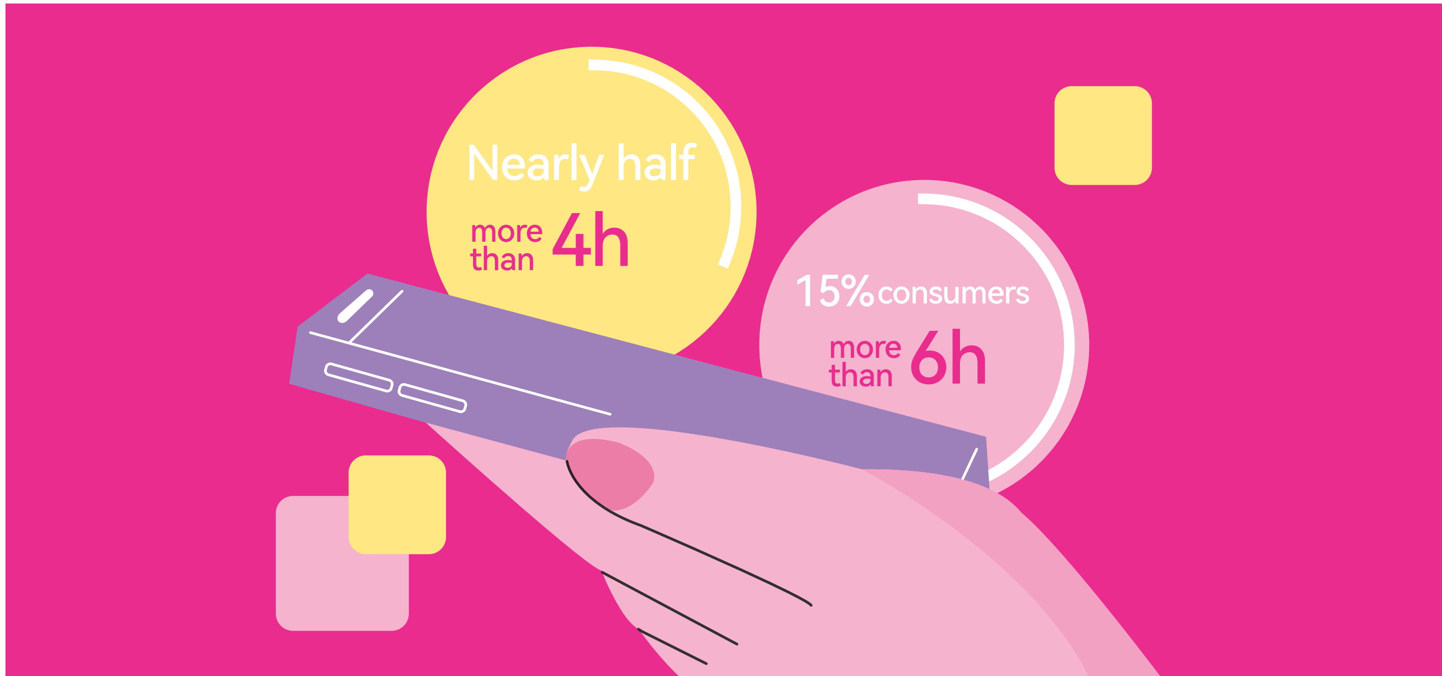
There is a growing acknowledgment among individuals that the feelings of powerlessness caused by long-term isolation and the crises of our age calls for the restoration of “intimate relationships.” The 2023 KANTAR Monitor Consumer Insights data reveals that 83% of respondents are unwavering in their dedication to “protecting and prioritizing their families.” In this survey, 80% of consumers think “spending time with family” is important, they strengthen familial bonds through making video or phone calls, sharing meals and traveling together.



03. Breaking free from overwhelming sensory input and returning to simplicity

a. Modern people are exposed to excessive noise, artificial light, and digital information. According to Deloitte's “2023 China Consumer Insights and Market Outlook White Paper,” nearly half of Chinese consumers used their mobile phones for more than four hours per day in the past three months, with 15% of consumers spending over six hours online every day.

b. Some consumers have already sensed the negative emotions brought on by sensory overload, including discomfort and anxiety. An increasing number of individuals are opting to decrease sensory stimulation and return to a simpler, more direct way of living and experiencing emotions.



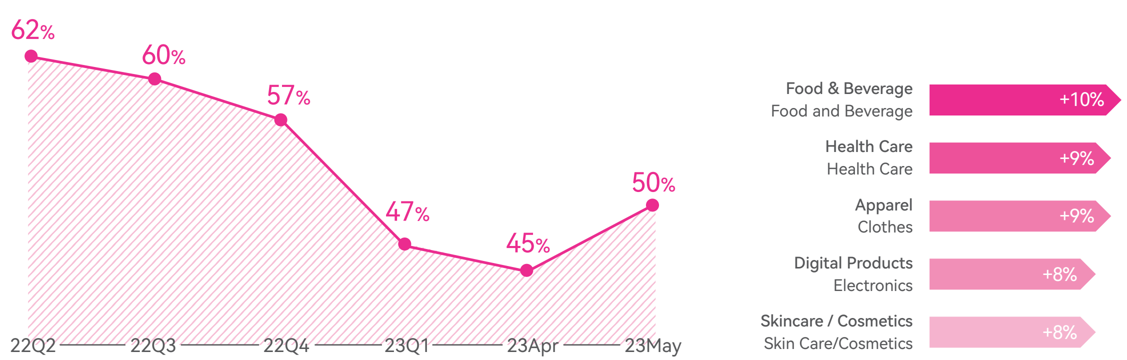
1.3

Discerning consumption—judiciously pursuing a tasty lifestyle

01. Across the entire society, prudent consumption has been reinforced, yet the momentum of quality consumption continues

a. COVID has led to a more judicious approach to consumption. According to the latest data released by the central bank, household savings deposits increased by a substantial 4.45 trillion yuan YoY in Q1, 2023.

b. The May data of "KANTAR China Issues Barometer" indicates that about 50% of Chinese consumers aimed to cut spending on consumer goods during the last three quarters of 2022. Despite dropping to 50% after the lifting of pandemic control s, consumers have not compromised on their expectations for the high quality of goods and services, which remains the driving force behind demand in all categories, including skincare and cosmetics.



Source: May data of "KANTAR China Issues Barometer"

c. The financial reports for Q1 2023 by high-end consumer brands reveal that the Chinese market is on an upward trajectory. Prada's sales in the Asia-Pacific region rose by 22.4%. Hermès noted that "Q1 Asia sales (excluding Japan) were up by 23%, driven primarily by strong sales in China during the spring."

02.Not compromise, but to pursue a quality life by modifying consumption habits and making more astute choices

Despite an overall cautious market, consumers still seek out high quality. Rather than downgrading their choices, people are becoming more discerning by optimizing their consumption habits. They are investing in areas that they are passionate about:

Prioritizing and rising investment on self-improvement

a. The survey indicates that 77% of respondents place a greater emphasis on personal growth and development.

b. The quest for knowledge among consumers is on the rise: data from the Consumption and Industry Development Research Institute at JD shows a significant increase in both the number and value of book purchases made by JD (especially female) consumers in 2022.Topping the list of increased consumer spending is "collection and appraisal," with categories such as history, traditional Chinese culture, humanities and finance management experiencing growth of over 100%.

c. Concerns around maintaining a balance between physical and mental well-being are high, with over 70% of individuals citing this as a priority amidst various pressures, including economic downturns. Consumers are increasingly investing in products that promote physical and mental health, with healing-oriented offerings such as aromatherapy, tea, yoga, meditation, and wellness travel seeing an uptick in demand. By 2023, the healing-focused economy is projected to reach a total value of $7 trillion, with an annual growth rate of 10%, according to forecasts from the Global Wellness Institute.

Valuing spiritual fulfillment and paying for experiential consumption.

a. 73% of respondents indicated that they would pay extra for emotional or psychological satisfaction.

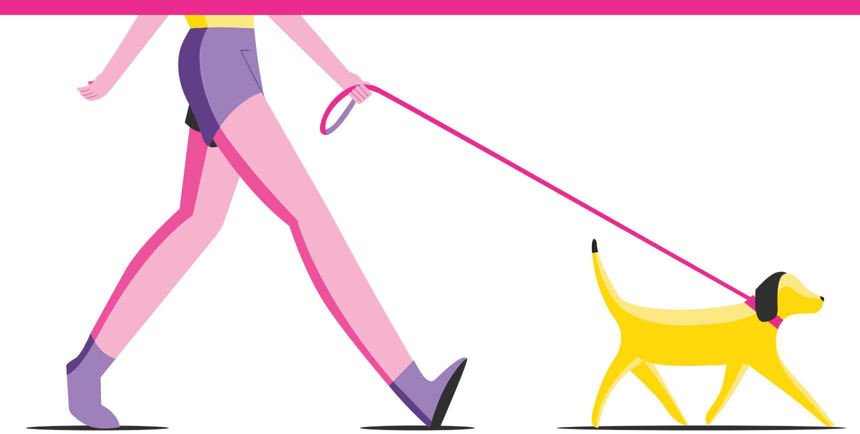
b. According to a report by beautydata.ai, following the lifting of pandemic controls, consumers shift their focus towards self-indulgence, driving the gradual recovery of the beauty industry. Spending on beauty services at salons, at-home beauty devices, beauty and skincare products has risen compared to last year.

c. As people continue to have greater access to physical stores, more money is expected to be spent on offline experiences. Based on a study by Sensormatic Solutions, 63% of Chinese consumers express a preference for shopping and browsing in physical stores, with 59% asserting that online shopping can never fully replicate in-store experience. The importance of a superior in-store experience and services is emphasized in research, with over one-third (36%) of consumers planning to visit stores that meet these standards.

Focusing on nurturing intimate bonds and increasing companion-related spending

a. The "companion culture" is gaining popularity in China, with more consumers turning to goods and services to alleviate loneliness and enhance intimate relationships. As a result, there has been a significant increase in demand for various personalized companionship services, such as gaming partners, virtual boyfriends/girlfriends and medical attendants. Research by Sinolink Securities' Research & Innovation Center anticipates that the market size of the "companion economy" (a form of economy that arises from consumers making purchases to alleviate loneliness and anxiety) will reach 40-50 billion yuan by 2025.

b. According to the survey results, 74% of consumers agree with the statement "I am more willing to spend money on people/things that hold a special place in my life (such as friends, family, and pets)."



1.4

Increasing awareness of sustainable development — from belief to practice

76%

Going "greener"

01. The concept of sustainability has gained widespread acceptance and recognition among the public, with 76% of consumers indicating that they are going “greener” in this survey.

02. Consumers are increasingly incorporating green principles into their purchasing behaviors. dsm-firmenich global consumer research shows that Chinese consumers are leading the way in terms of awareness of and willingness to participate in sustainable endeavors. Based on EY Future Consumer Index 2022, the primary factor influencing consumption decisions for two consecutive quarters is “Eco-friendly,” which was selected by 26% of the respondents. In China, the proportion is even higher, with 32% of consumers indicating that sustainability and environment take precedence when it comes to making purchasing choices.

03.According to Statista's forecast, the green and natural cosmetics market will be worth $59 billion by 2031, with North Asia, led by China, contributing 32% of the market share.

Insights and Reflections

As pandemic controls are lifted, consumers are capitalizing on the chance to go out and relish the moment. More scenarios to wear perfumes and chance to purchase fragrances offline make the revival and growth of the perfume industry a feasible prospect.

As consumers re-examine themselves and seek to express their true selves, invest in personal growth, and pursue spiritual experiences more rationally, perfume, as a product that offers high emotional value, will play an indispensable role.

Therefore, perfume brands need to follow evolving consumer trends and respond to their demands for social relationships, personal growth, and discernable consumption, helping them in self-improvement and self-expression. With consumers putting their sustainable awareness into practice, the perfume industry must act accordingly.

Part 2

Industry Recovery：

The Dynamics and Landscape of China's Perfume Industry

With COVID restrictions lifted, China's macroeconomy is slowly rebounding in the first half of 2023. China' s perfume market is brimming with growth potential and diversity, with international mainstream fragrance brands still leading the way, increasing demand for international niche fragrances among consumers, a vibrant domestic brand market and a trend towards refined positioning for some high-end players.

“With its doors reopened, China is teeming with possibilities. We outperformed our sales expectations for the first quarter,” said Michel Atwood, CFO of Inter Parfums Inc.

dsm-firmenich's Vice-President of Fine Fragrance APAC Olivier Viejo, mentioned, “Over the past four years, the Chinese market has witnessed new upward trends in terms of scale, competitive landscape, and more.”

According to Karim LISI, Vice President of Business Development for Fine Fragrances in the Asia-Pacific region, Symrise, “China will be a critical engine of the global perfume market, and we anticipate sustained growth in the Chinese market over the next five years.”

The main questions explored in this chapter:

What is the current status of the perfume industry in China ?

- Has China's economy lived up to the expectations after the pandemic controls were lifted? How is the overall performance of the cosmetics industry?
- Is perfume still considered a rising star in the post-pandemic era?
- What distinct traits can be observed in the development of international mainstream fragrances, international niche fragrances and Chinese perfume brands?

Content of this chapter:

2.1

The Chinese economy is slowly bouncing back and the perfume sector is displaying promising signs of recovery

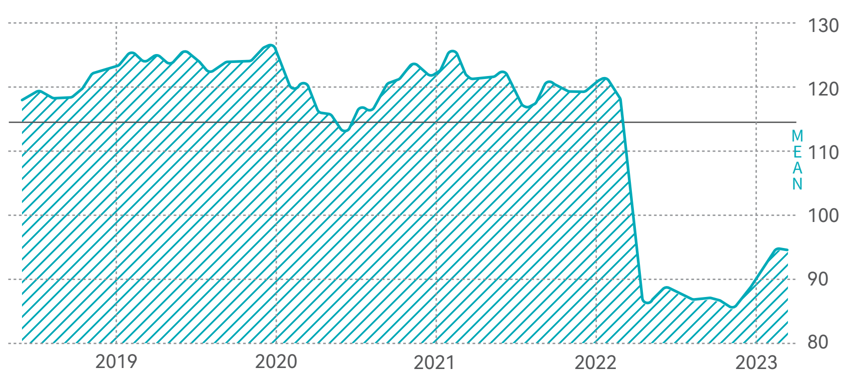
01.The Chinese economy is on the upswing, but still below the pre-COVID level

a. In Q1 2023, the Chinese economy showed signs of moderate recovery. YoY GDP growth in the first quarter hit 4.5%, up by 1.6 percentage points from Q4 of last year.

b. With the relaxation of pandemic policies, the Chinese consumer confidence index witnessed a modest recovery in 2023, reaching 95 in February.

Source: KPMG: China Economic Watch Q2 2023

China Consumer Confidence Index 2019-2023



Source: Statista

02. In the early phase of economic recovery, the perfume industry still holds favorable growth prospects

a. "China' s economy is still at the early stages of recovery, with weak domestic demand and recovery progress that is not evenly distributed across industries." Said Kang Yong, Chief Economist of KPMG China. According to data on total retail sales of consumer goods from January to June 2023, retail sales related to offline social occasions is noticeably faster than last year, while consumption in the automotive and housing sectors has been lackluster. The cosmetics category has exhibited healthy growth, with a rate slightly above that of the overall market.

Total retail sales of consumer goods and consumer retail sales of major categories, June 2023

	Jan.-Jun. retail sales (¥bn)	Jan.-June YoY growth (%)	Jun. retail sales(¥bn)	Jun. YoY growth (%)
Total retail sales of social consumption	227588	8.2	39951	3.1
Automobiles	22409	6.8	4526	-1.1
Food	9161	4.8	1631	5.4
Apparel	6834	12.8	1238	6.9
Cosmetics	2071	8.6	451	4.8
Gold, Silver and Jewelry	1689	17.5	267	7.8
Sports & Entertainment	585	10.5	141	9.2

Source: National Bureau of Statistics; data are nominal growth rates before price deductions

b. Perfume giants delivered strong performance in the Chinese market in Q1 2023:

- L'Oréal: Q1 financial report shows that L'Oréal's leading position in the perfume industry has been further bolstered by the growth of its high-end cos metics division, with perfume sales increasing by 23.0%, the fastest-growing category in the high-end market.

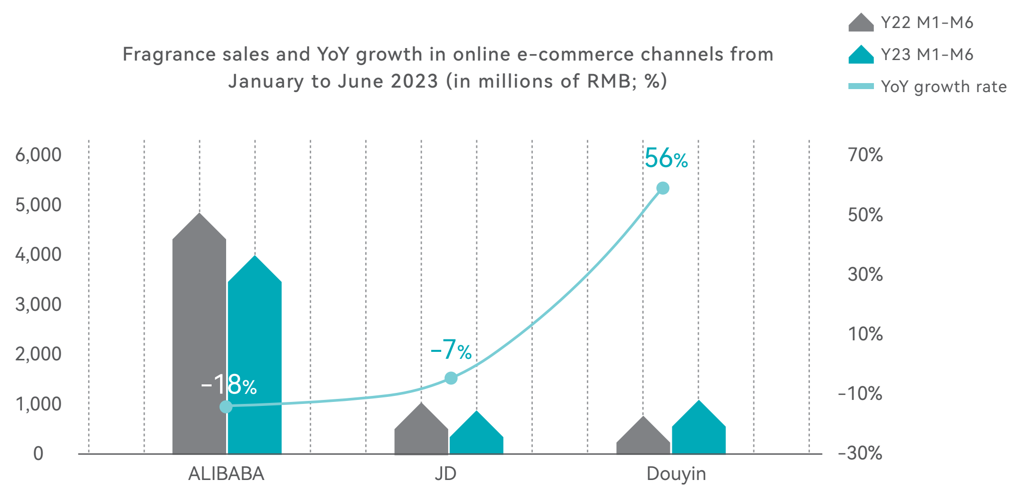
- LVMH: The perfume and cosmetics division generated sales revenue of 2.115 billion euros in Q1 2023, an 11% YoY increase. Sales in Asia (excluding Japan) increased by 14% year-on-year.

- Inter Parfums Inc: Q1 2023 saw a remarkable 32% growth in revenue, with authorized perfume brands like Montblanc, Jimmy Choo, Karl Lagerfeld and Boucheron all achieving double-digit sales growth.

- Coty: Sales in the Asia-Pacific region for Q1 2023 remained steady, with an YoY growth of 4%, mainly propelled by strong growth in Asia and travel retail sectors, along with the gradual rebound of the Chi-nese market.

c. The data from online shopping platforms indicate that the perfume sales recovery for ALIBABA and JD.com is relatively sluggish, while interest-driven content-based live-streaming e-commerce, particularly Douyin, is seeing remarkable growth.

Fragrance sales and YoY growth in online e-commerce channels from January to June 2023 (in millions of RMB; %)



Source: MKTINDEX.COM; industrial data from ALIBABA, JD, Douyin perfume industry data; retail sales at transaction prices

d. China' s fragrance market is forecasted to reach over 20 billion yuan in 2023, and potentially hit 53.9 billion yuan by 2028, according to data from the Forward Industry Research Institute. The market holds enormous potential for the future.

China's fragrance market is forecasted to reach

53.9 Billion

2.2

International mainstream fragrance brands are accelerating their expansion and maintaining their dominant position

International mainstream perfume is still in the dominant position. TMKTINDEX data reveal that international mainstream fragrances accounted for roughly 71% of the total fragrance sales on ALIBABA and JD between January and June 2023, with no notable differences from the same period in 2022.

Proportion of sales by different brand types of TOP100 fragrances on ALIBABA and JD from January to June 2023

Source: MKTINDEX.COM; industrial data from ALIBABA, JD, Douyin perfume industry data; retail sales at transaction prices; brand categories are determined based on composition of the Top100 brands.

International mainstream perfume   International niche perfume   Chinese brand

01.The ranking of leading international mainstream fragrance brands remains relatively stable on ALIBABA and JD.MKTINDEX data suggest that Versace and Burberry have shown positive trends on ALIBABA and JD from January to June 2023, both climbing three spots in the sales ranking.

TOP 10 global mainstream brands on ALIBABA and JD

	Rankings January-June 2023	Rankings January-June 2022	Change in Market Rankin
Chanel	1	1	Flat
Dior	2	2	Flat
Hermès	3	3	Flat
Yves Saint Laurent	4	4	Flat
Versace	5 ▲	8	Up 3 place
Bvlgari	6	5	Down 1 place
Armani	7	7	Flat
Gucci	8	6	Down 2 place
Tom Ford	9	9	Flat
Burberry	10 ▲	13	Up 3 place

Source: MKTINDEX.COM; industrial data from ALIBABA, JD; the TOP 10 international mainstream brands are determined by their position in the segmented market, where Y22 and Y23 brands are the same.

02.Amidst the ALIBABA and JD market, some up-and-coming brands among the lesser-known international mainstream players are leveraging their high marketing prowess to fuel rapid growth in the short term. Prada entered the TOP 20 list with an YoY growth of 1173% from January to June 2023, while Valentino's 243% YoY growth propelled the brand into the TOP 30, according to MKTINDEX data. Despite adverse market conditions, some international mainstream brands demonstrated steady growth during the same period, with Coach's fragrance sales increasing by 25% year-on-year, and Bottega Veneta and Ferragamo garnering nearly 5% expansion.

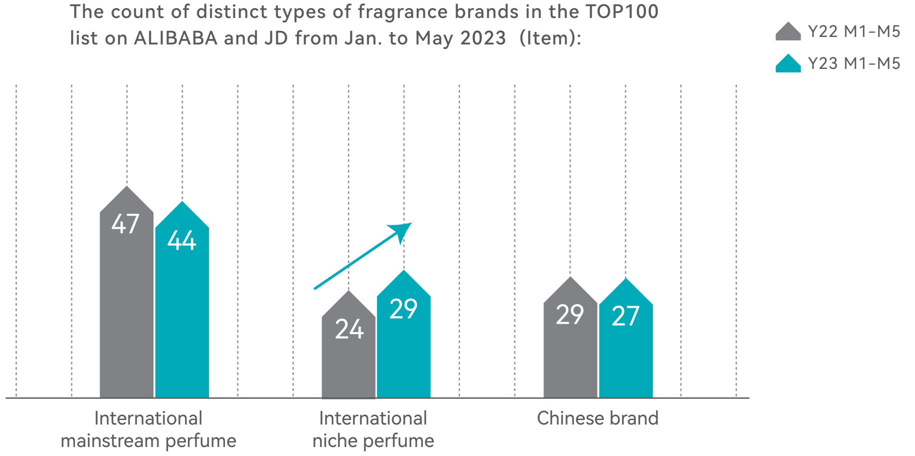
2.3

International niche fragrance brands are seeing intense consumer interest, with multiple brands showing robust growth

01.The latest survey reveals that consumers who prefer niche fragrances alone account for 53.7%, significantly higher than last year's 47.6%, indicating a substantial increase in demand.

02.According to MKTINDEX data, from January to May 2023, five new international niche fragrance brands joined the top 100 fragrance ranking on ALIBABA and JD. Niche brands like Maison Francis Kurkdjian (+ 129% YoY), Juliette Has A Gun (+ 51% YoY), Etat Libre D"orange (+ 48% YoY), and Santa Maria Novella (+ 148% YoY) record notable growth.

The count of distinct types of fragrance brands in the TOP100 list on ALIBABA and JD from Jan. to May 2023 (Item):



Source: MKTINDEX.COM; industrial data from ALIBABA, JD

"In the past, the market was largely driven by well-known mainstream brands such as Chanel, Versace and Hermes. In present-day China, however, there is a growing presence of previously undiscovered, lesser-known brands. Consumers are increasingly interested in niche and distinctive options."

—— Jean Madar, Chairman of the Board and CEO of Inter Parfums, Inc.

2.4

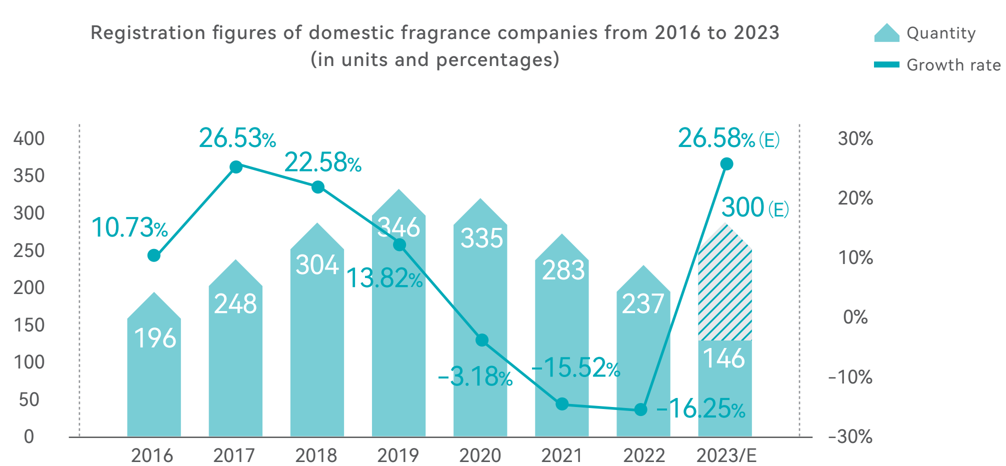
Chinese fragrance brands are experiencing a market upswing, with select high-end brands plateauing

01.Indigenous fragrances gain momentum in China, some exhibiting an assertive surge in growth

a. With reference to TianYanCha's data, the tally of registered Chinese fragrance companies has now surpassed 3,000 as of June 2023.Following a downward trajectory in growth rates in 2021, the post-pandemic phase is anticipated to witness a gradual rise in new companies during 2023.A total of 146 new fragrance companies were registered in H1 2023, boasting an impressive 62% increase over 2022, and a prospective target of 300 for the entire year.

b. MKTINDEX data indicate that in H1 2023, 30% of Chinese perfume brands entering the ALIBABA and JD Top100 were new players. Boitown dominated the domestic rankings and made it to the top 15 in the industry, whereas Chunfeng Shili, Fenshang and ORANOT, absent from last year's list, swiftly climbed to the industry's top 50.

Registration figures of domestic fragrance companies from 2016 to 2023
(in units and percentages)



Source: TianYanCha; Please note that the overall data for 2023 is a forecast, the company registrations (146) from January to June 2023 are based on real data

02.Some high-end Chinese perfume brands are plateauing, seeking new expansion through refined brand building, new product development and operating communication.

a. Chinese brands have shifted away from excessive researching and trying out new materials. According to Symrise, "Domestic brands have exhibited a lower demand for R&D as compared to 2021. Rather than blindly creating new products, they are delving into brand attributes and optimizing existing products/product lines to search for opportunities."

b. To Summer, a premium fragrance brand from China, previously known for its "private domain + physical store" operating model, has now ventured into e-commerce. Since opening an official flagship store on Tmall in August 2022, the brand has seen a remarkable surge in sales. The brand's sales climbed to No. 57 on the ALIBABA from January to June 2023, marking an YoY increase of around 200 places.

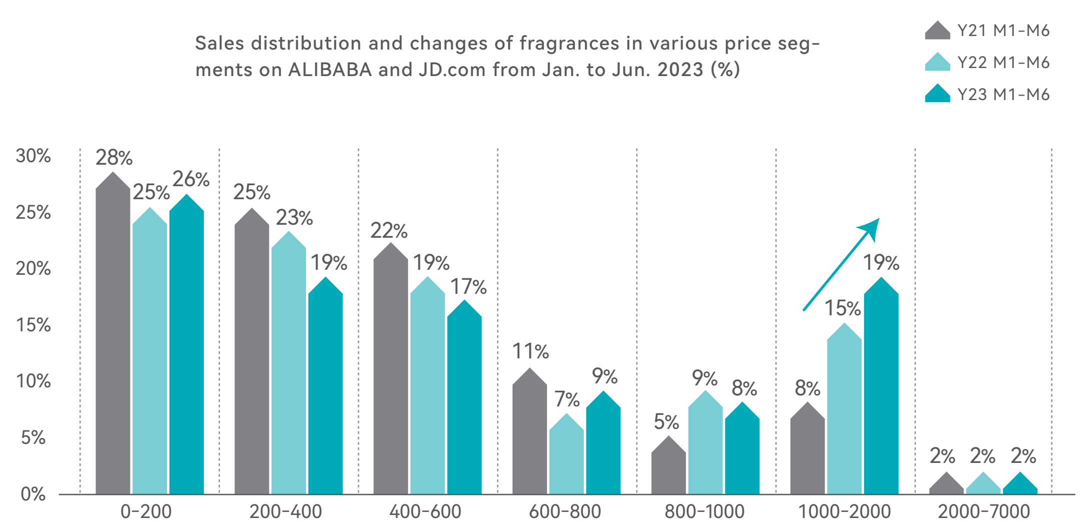
c. Chinese luxury perfume brand DOCUMENTS secured a strategic partnership with Shanghai Meicifang Investment Co., Ltd., a subsidiary of L'Oreal China, in September 2022 and obtained tens of millions of RMB in Series A + funding. The brand, with a mere 2 years of existence, has set up 9 offline spaces and 2 brand bookshops across Shanghai, Beijing, Shenzhen, Chengdu and Hangzhou.

2.5

Premiumization shows no signs of slowing down, consumers are opting for products with costly price tags

On major e-commerce platforms such as ALIBABA and JD.com, the perfume industry is displaying a further inclination towards high-end, according to MKTINDEX. From January to June 2022, the sales share of fragrances priced at 800+ RMB witnessed a noteworthy increase; from January to June 2023, the share of fragrances priced over 1000+ RMB showed the fastest growth, indicating the strong purchasing power of consumers.

Sales distribution and changes of fragrances in various price segments on ALIBABA and JD.com from Jan. to Jun. 2023 (%)



Source: MKTINDEX; ALIBABA; JD 's fragrance industry data; retail sales proportion is calculated based on transaction prices.

Insights and Reflections

With the lifting of COVID-19 control measures, China's fragrance market is delivering as anticipated and continuing its recovery in line with the macroeconomic rebound. International mainstream fragrances, niche fragrances, and Chinese players have all achieved remarkable results in expanding their channels, operations and presence over the past year. Despite the progress made, the Chinese economy is still in the early stage of recovery, and the consumer base in the category market is immature and requires education, with a multitude of needs. China's "olfactory economy" remains a mystery.

Part 3

Divergence and Progression:

Chinese Fragrance Buyers Display Multifaceted Growth

As the perfume-wearing scenarios grow, and motivated by the idea of "self-indulgence," Chinese consumers are showing higher involvement and spending in the perfume category compared to the COVID days.

At the same time, Chinese fragrance buyers continue to diverge: they differ in their perfume attitudes, usage preferences, purchasing considerations and other factors, yet unite in their desire to indulge and express themselves. The fragrance consumers link fragrance notes with scenarios, emotions and styles to exhibit their uniqueness to varying degrees.

Perfume consumers are seeking specialized scent information through various channels and their fragrance purchasing journey can no longer be simplified as solely online or offline or via a single channel. A comprehensive, omni-channel communication experience has become the new trend.

Jean Madar, Chairman of the Board and CEO of Inter Parfums Inc. remarked, "The Chinese market now boasts a larger demographic of young consumers who possess greater self-assurance and are inclined to explore and experiment with less-known brands that align with their personality."

Olivier Viejo, Vice President of Fine Fragrance APAC, dsm-firmenich said, "The Chinese consumers have become more sophisticated and more consumers expect a more exploratory fragrance experience through diversification of formats."

According to Lana Glazman, VP of Marketing Science Global at dsm-firmenich, "Chinese young consumers of Generation Y and Generation Z are key groups to increase the penetration rate of fragrance products. Compared with consumers from other countries, they prefer online channels, use fragrance in more diversified ways, and hold a very open attitude towards perfume products. As their level of sophistication of perfume usage and perception increase sn, they will pay more attention to the relationships between fragrance and emotions and self expression."

This chapter focuses on:

What are the new characteristics of consumers in the fragrance industry ?

- What changes have occurred in consumers after the easing of COVID restrictions?
- Have fragrance consumers become more mature? What traits have been displayed?
- What does each touchpoint on the fragrance purchasing journey mean to consumers? Which fragrance purchasing experiences are consumers paying attention to?

Content of this chapter:

3.1

After the lifting of control measures, Chinese consumers show a higher involvement with perfume

Following pandemic-ridden years, consumers are more aware of are more aware of the power of scent. dsm-firmenich's 2022 New Next Now consumer research has unveiled a remarkable transformation after the COVID, with 68% of Chinese consumers now acknowledge the relative significance of fragrances in their lives, compared to a mere 42% two years prior. The pandemic has heightened consumers' awareness of the significance of aromas and the impact of fragrances on emotions.

The lifting of pandemic-related constraints has resulted in a surge in consumer outings, presenting more scenarios in which perfumes can be utilized. In this survey, 70% of consumers report a rise in both the fragrance application occasion and the frequency of usage within identical settings, compared to the COVID period. Over 50% of users wear perfumes in social settings, with a significant 66% choosing to "scent up" for friend gatherings. Motivated by a desire for self enjoyment, 80% of consumers feel that they focus more on themselves after the pandemic, resulting in an increased urge to use fragrances. dsm-firmenich's study indicates that perfume product usage has seen the most rapid growth, swiftly rebounding compared to the preceding year.

When it comes to fragrance purchase, 49% (contrary to last year's 36%) of consumers stated that after the lifting of pandemic restrictions, they have allocated more funds to perfumes.

3.2

Chinese perfume consumers continue to diverge and progress in multiple dimensions

The main driving forces behind the use of perfumes among Chinese consumers are “keeping up with trends” and “cultivating personal image.” Half of fragrance users buy their first scent when entering a new phase in life, such as adulthood, graduating, starting a new job and other milestones.

The Chinese consumer market exhibits apparent segmentation traits:

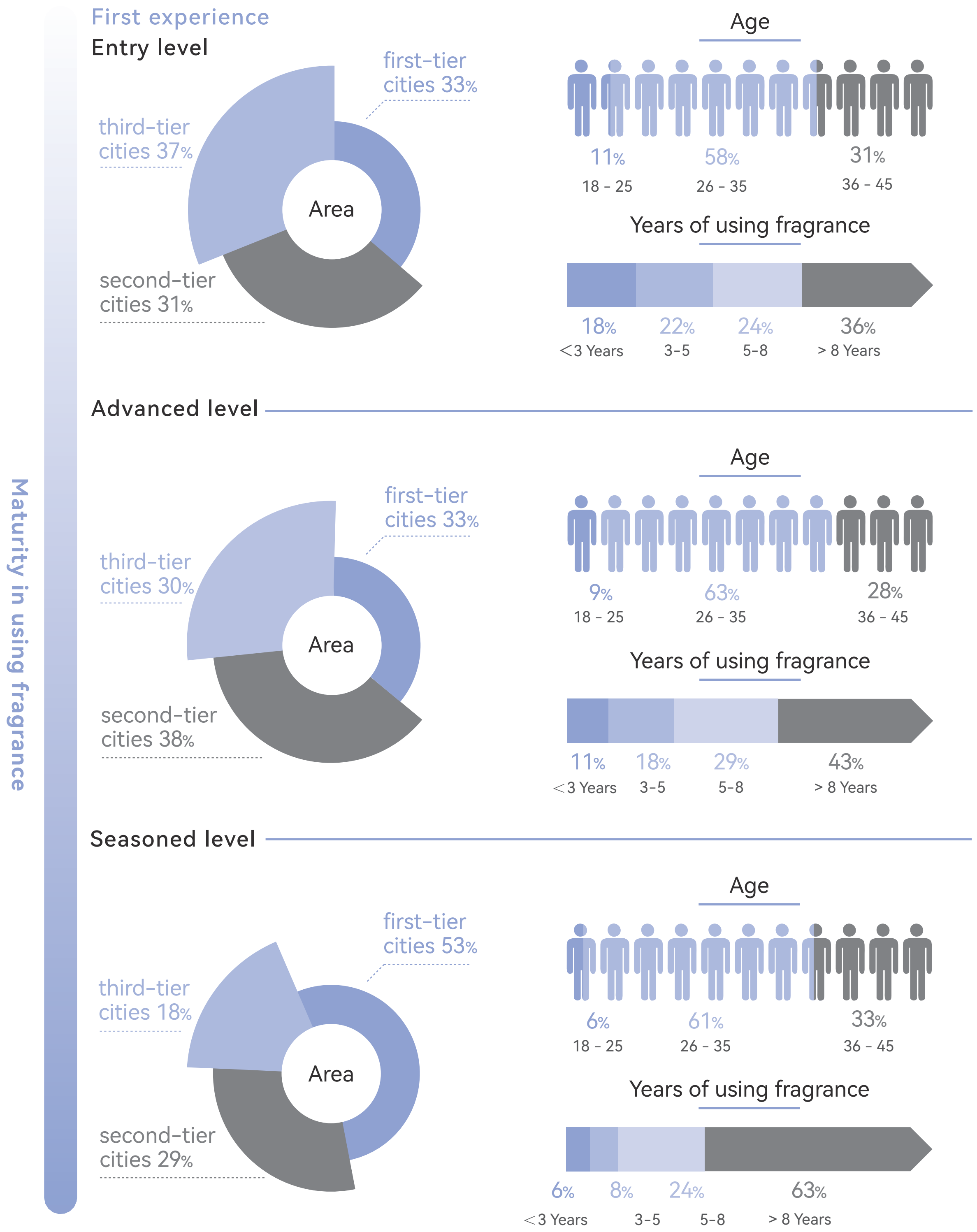
Most Chinese consumers are still at the entry level of using perfumes, with their usage scenarios mostly linked to social settings such as get-togethers and weekend activities. Their knowledge of fragrance categories is quite rudimentary, with 70% of users considering themselves to have limited understanding of perfumes. Therefore, they are inclined towards fragrances that are “safe and easily recognizable,” such as international mainstream fragrances and mass-market scent profiles.

As their comprehension of the fragrance category deepens, some perfume users upgrade their fragrance mindset, usage preferences and purchasing considerations. They begin to seek out “niche” fragrances to “showcase their uniqueness or taste,” expanding their fragrance usage scenarios to daily life and work. They start to explore more innovative and distinctive perfumes and their purchasing considerations become more expert. They refine their taste through exploration, integrating “fragrance-wearing” into their daily repertoire.

This evolution is not simply a result of age or the natural passage of time wearing fragrances, but rather, it stems from experiential knowledge and consumer maturity. Entry-level perfume consumers remain the mainstay, with 60% of them having used fragrances for over five years. Among advanced and seasoned fragrance consumers, 30% and 14%, respectively, have used fragrances for less than five years. They actively seek information from multiple sources (67%) and progress quickly.

	Entry level	Advanced	Seasoned
Purpose of using fragrance	“Keeping up with **trends" and "Cultivating a** discerning and sophisticated **image"**	**“Representing one’s individuality and taste”**	**“Expressing oneself freely and authentically”**
Demands for perfumes:	**Safe + Identifiable**	**Niche Appeal + Sophistication**	**Suitable + Diverse**
Factors of Purchase Consideration:	Greater emphasis on **aesthetics/packaging, advertising/marketing** Heightened sensitivity towards pricing	Focus on **on reputation** and**brand** Researching**product features** (e.g., notes, holding time, ingredients/origin)	**Multiple and more specialized factors** (e.g., profile, ingredient composition, extraction techniques, brand philosophy and craftsmanship)
Attitude and preferences for brands:	Prefer **prominent international mainstream brands** (high recognition, easy to identify) 2.7 brands used on average	**Exploring niche brands (personal pursuit, showcasing taste)** 6.2 brands used on average	**Trying and using various brands** (valuing product alignment with personal needs, rather than brand category) 14.6 brands used on average
Perfume usage frequency:	Only 33% of people use it daily More people (55%) use it 3-6 times a week	49% use it daily Approximately 30% use it 5-6 times a week	63% use it daily Among them, 22% use it multiple times a day
Perfume usage scenarios:	Mostly on **social gatherings and weekend leisure activities** On average, individuals use perfume in 3 different scenarios	**Social settings** are prominent, with high usage during commutes On average, individuals use perfume in 4 different scenarios	It finds application in **various daily and social scenarios**, especially during solitary moments, household settings, and fitness activities. On average, individuals use perfume in 5 different scenarios
Notes preferences:	2.4 notes used on average **Floral notes** are most popular, especially rose and jasmine scents	3.4 notes used on average Increasing interest in Fruity, Citrus, and Woody notes	6.1 notes used on average Layer**Aquatic, Chypre, and Gourmand** Gourmand onto Floral and Citrus notes **for a harmonious blend of fragrances**

Group definition:
【Entry-level】They have a narrow range of perfume brands in their awareness and usage and possess a limited comprehension of categories；
【Advanced-level】Having knowledge and usage experience of different perfume brands, with certain level of understanding of categories;
【Seasoned-level】Being acquainted with and having used a wide range of perfume types and brands, with a considerable awareness of categories



3.3

Beginning the fragrance journey with niche options - international niche fragrances may become consumer's inaugural scent

Novice-level consumers are inclined towards fragrances that are "safe and easily recognizable," such as international mainstream fragrances. However, this research discovered that a portion of consumers' initial perfume choice is an international niche fragrance, especially among those in first-tier cities, accounting for 23% of the total.

— Consumers in first-tier cities chose an international niche fragrance as their initial perfume

23%

This is mainly because:

1. In the eyes of most Chinese fragrance buyers, the definition of "niche fragrance" is uncomplicated and direct, meaning "perfumes that are rare or not commonly used." (67%) In high-tiered cities,, international niche fragrance brands have greater visibility and usage, and consumers are more likely to know these brands through channels such as acquaintances and offline stores. Therefore, for them, these brands are not entirely unknown or unused.

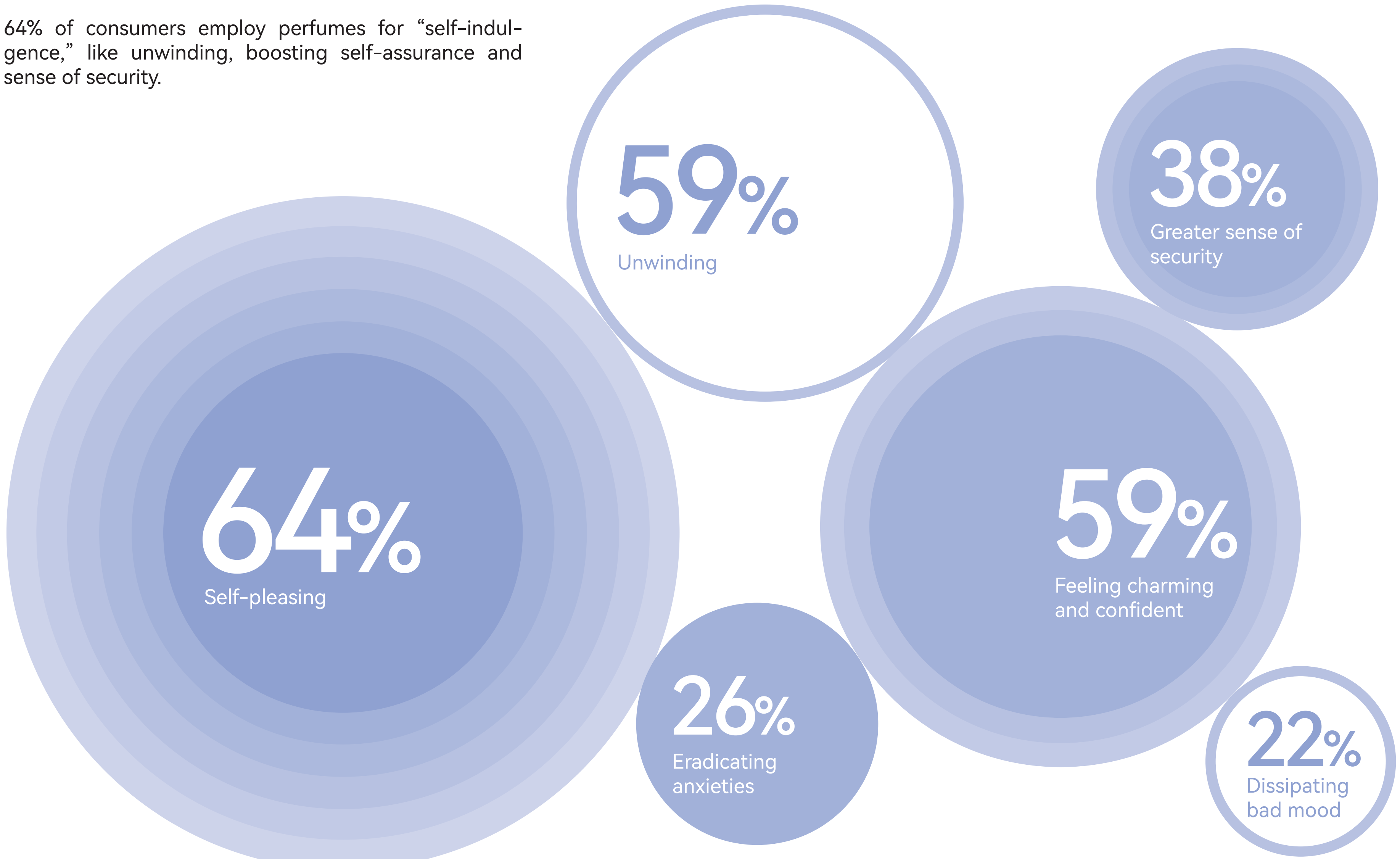
2. 63% of consumers will make their first purchase due to their fondness for the appealing perfumes worn by those they interact with. For these novice-level consumers in first-tier cities, "following the trend" and opting for "niche star products" recommended by others would be a wise choice.

3. Furthermore, niche fragrances are visually more attractive with distinctive designs, which resonate with 33% of entry-level consumers – they prioritize appearance (bottle design, packaging, etc.) in their purchase decisions.

3.4

Fragrances provide a means of emotional expression and self-enjoyment to varying degrees

64% of consumers employ perfumes for “self-indulgence,” like unwinding, boosting self-assurance and sense of security.



01. Entry-level: showing temperament without being intrusive

- For entry-level consumers, the most crucial purpose of using perfume is: “enhancing temperament” , “exuding presence” and “increasing charm.” They derive personal satisfaction from pleasing others, and their key desire is to have a scent that is “pleasing without being intrusive.” Scents that come under the “floral and fruity” classifications, as well as those that embody a “crisp, composed, and polished” style, are more aligned with their preferences. DSM-FIRMENICH's Global Fine Fragrance Hub has the same conclusion for entry-level consumers: their main motivation for using perfume is self-enjoyment and they want freshness, social confirmation, and confidence through fragrance.

“The leader walked past me and I caught a whiff of her fragrance. ‘What a strong presence!’ I said to myself. I also wanted to become more charming and mature, so I bought my first perfume.”

02. Advanced -level: striving for uniqueness and expressing discernment

- Advanced consumers view perfume as a tool for “self-expression” and seek to differentiate themselves through their fragrance choices. They use fragrance to “strive for uniqueness and express discernment:”
  - Strive for uniqueness: niche fragrance brands are their go-to choice (40%), with 36% seeking fragrances that are “unique and unconventional” to avoid smelling like the crowd. They prefer niche notes such as “Green” and “Fougere.”
  - Express discernment: they lean towards fragrances that “align with their personal identity (65%),” so they will explore brand history (55%) and quality craftsmanship (65%). Premium international mainstream fragrance brands (including luxury and exclusive edition) are more popular among them.

03. Seasoned-level: Various aesthetics, showcasing the “real self”

- For seasoned-level consumers, perfume is a crucial element of their everyday routine, with 22% of veteran users using it several times a day.
- The primary incentive for them to use fragrance is to “lift mood” and they want develop their “distinct olfactory identity” while also considering the influence of fragrances on emotional health. 85% of seasoned consumers say that using perfume makes them “feel more at ease” . 51% employ perfume to “convey their present emotions” . Their fragrance preferences are diverse, with an average of 3-4 styles and they hope to enhance their expression through styles like “sexy and mysterious” , “cool and composed” .
- Seasoned consumers prioritize factors like profile, ingredients, and extraction methods, in search of the fragrance that suits them best. Brand attributes are not their primary concern. They have tried various types of brands, as 63% simultaneously possess international mainstream fragrances, international niche fragrances and Chinese fragrance brands.

3.5

Fragrance notes are intricately linked to scenarios, emotions and styles

01.Classic floral notes are still in vogue, while "woody sandalwood" and "citrus" fragrances are trending among the masses.

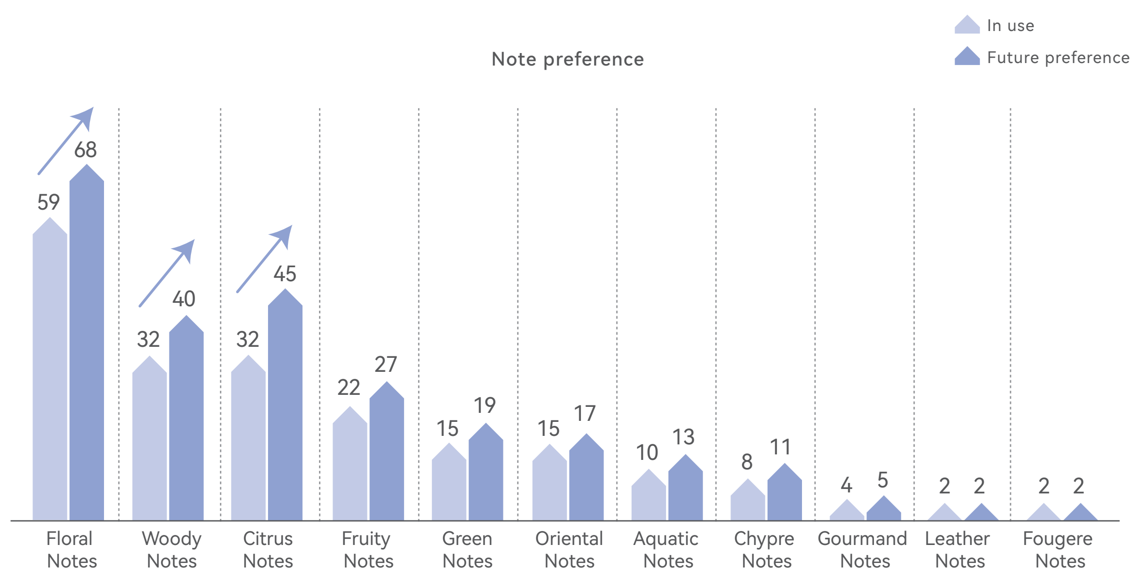
dsm-firmenich's study revealed that scent has increasingly become the primary factor driving Chinese consumers to purchase perfumes (77%). In this study, 42% of consumers stated that they particularly concerned about Note/Scent when purchasing perfume.

"Floral fragrances" continue to reign supreme in the Chinese market, with approximately 60% of consumers currently opting for various types of floral notes, vastly outweighing other scents. Consumer preference for floral fragrances has remained steady, particularly for classic scents such as "rose" and "jasmine." Advanced and seasoned users put forth more discerning demands for notes. From the seasonal scents of China such as "Magnolia" and "Plum Blossom" to the "textured floral" blended with premium fruity or woody notes, floral fragrances have been given a fresh twist.

"Woody" and "Citrus," which have been all the rage in the past couple of years, are still gaining popularity, with over 40% of users choosing them. In particular, "Sandalwood" and "Lemon" are highly sought-after by seasoned enthusiasts. Consumers are broadening their experience with Woody by exploring new possibilities like "Aquatic Driftwood" or "Smooth Softwood" which offer the refreshing greenness or skin-like touch.

In the post-pandemic era, "Green" have emerged as a dynamic and burgeoning note. From "Fresh Greenery After Rain" and "Moist Herbal" to "Bamboo" and "Fig," consumers have started to gravitate towards various directions.

At the same time, other niche notes like "Oriental", "Aquatic" and "Chypre" have been growing in popularity among Chinese consumers, with "Tea", "Seawater/Seabreeze" and "Musk" gaining momentum.



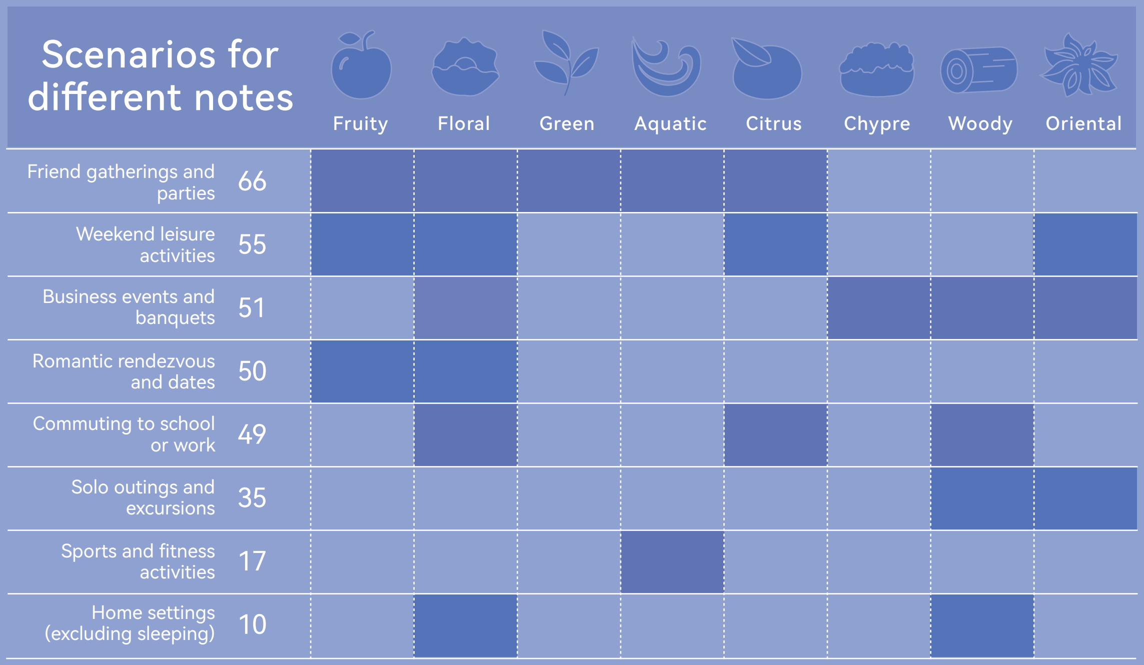
02.Interpret emotions and complement settings

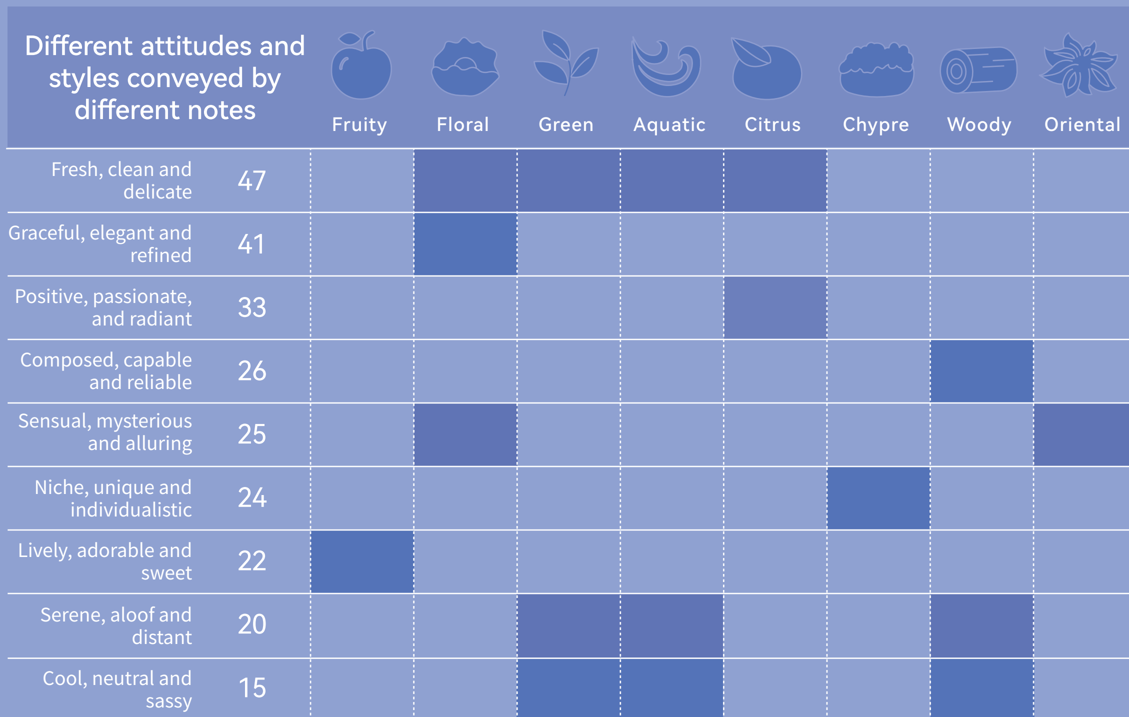
Users try out different notes to express their style or mood in diverse settings (79%) or emotional states (71%). dsm-firmenich's Global Fine Fragrance Hub discovered in their 2023 research that Chinese perfume consumers have varying demands for fragrance application, long-lastingness, intensity and olfactive preferences in different contexts. Chinese perfume consumers exhibit a stronger emphasis on manifesting their taste and aesthetic in various downtimes, as compared to respondents from Europe, America, and other countries, according to the research results.

a. "Floral" are versatile, as they can convey both "freshness and elegance" and "sexiness and mystery." "Woody" are commonly used in work and business settings, highlighting a male's "calm and rational" qualities and helping female users create a "neutral and sassy" style. Citrus" project a "crisp and sunny" image and are ideal for daily commute and relaxing parties. "Fruity", which are "sweet and delightful," are commonly used by women in dating and social occasions to create a memorable impression or enhance their appeal.
They use niche notes such as "Green" and "Aquatic" at parties to maintain a "cool and aloof" image, or during physical activities to stay "refreshed." At such times, they are inclined to heavily apply fragrance by spraying on multiple body areas or reapplying several times. Male users tend to favor "Oriental" and "Chypre" as they exude a "unique and enigmatic" quality.

"Occasionally, I want to project an image of being distant and unapproachable, so I'll apply a fragrance that's more dominant and assertive."

"Given my assertiveness at work, I opt for a more subtle fragrance with less aggressive notes to come across as approachable to others."



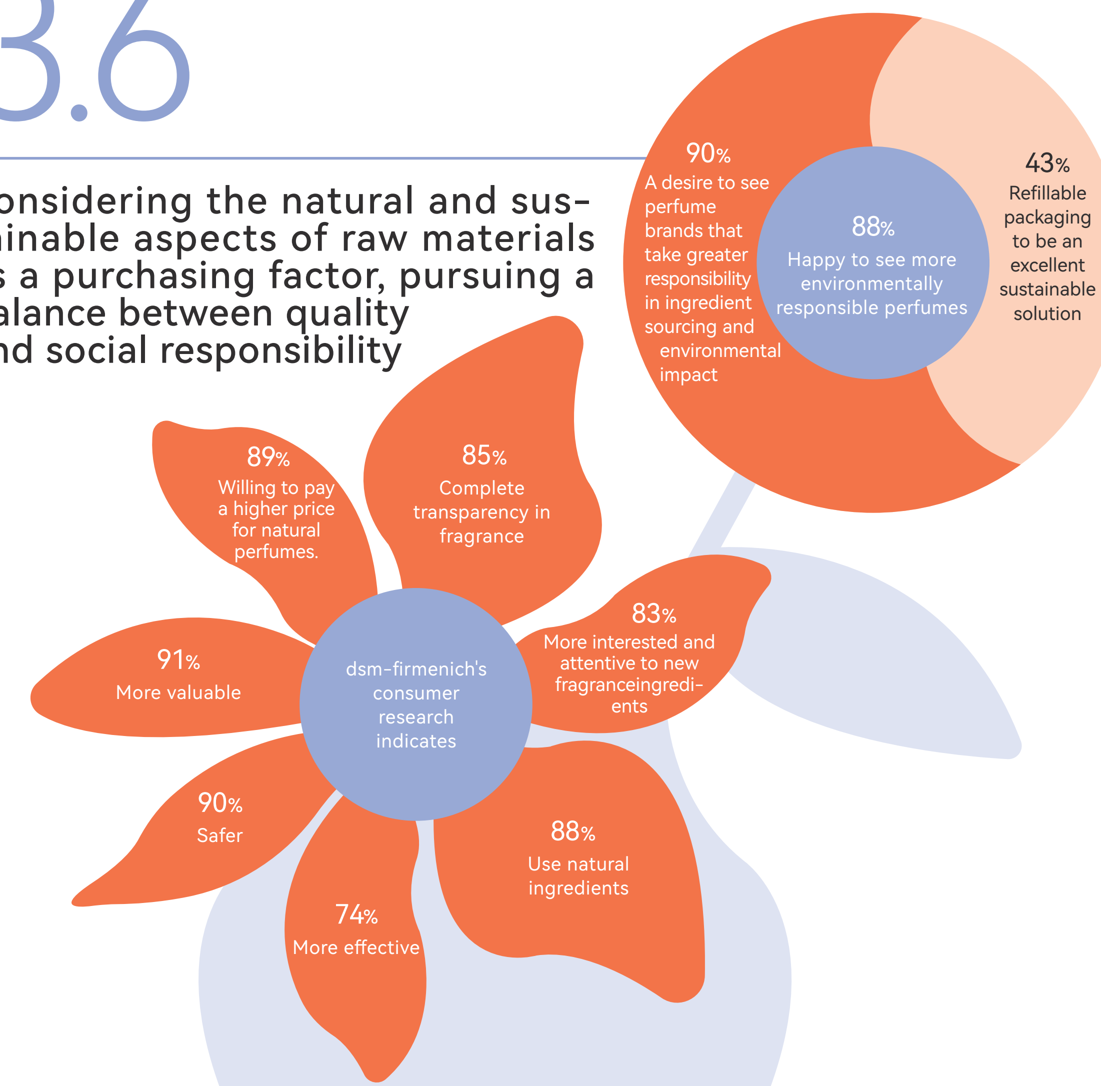


b. Mature consumers are adept at selecting fragrance notes based on the occasion: novice perfume users favor floral scents to project a “fresh and elegant” image in social settings. Advanced and seasoned consumers utilize “Rose” and “Sandalwood” to express “sexiness and mystery,” use “Seaweed and Marine,” “Ebony and Cedar” and “Tea” notes to convey a sense of “tranquility and aloofness” or “coolness and sassiness.”

c. There are noticeable differences in fragrance preferences and expressions between male and female perfume users, with men showing a significantly higher preference for “Woody” and “Aquatic” notes to project a “fresh” and “composed” image, especially in settings such as dates with the opposite sex and during exercise or fitness activities. Women fragrance users, in contrast, employ a range of “Floral” and “Fruity” notes to embody a “subtle” and “refined” persona, with scents like “rose” and “white flowers” being particularly popular, especially in social settings such as dates and parties, where their fragrances often carry a hint of “sensuality”, “romance,” and “cuteness.” Dsm-Firmenich's Global Fine Fragrance Hub discovered in their 2023 research that, the captivating attributes that resonate with Chinese female perfume consumers are “elegance, femininity, superior quality, the feeling of beauty, freshness, delight, vibrancy and a genuine touch of nature (in descending order). During the “Magic Moment” of “Downtime with Partners,” Chinese female perfume consumers seek to make a favorable impression and enhance their attraction through fragrance, hoping to evoke a sense of “sexiness” and “romance.” Therefore, they prefer fragrances with “Floral” and “Amber” notes and place a higher emphasis on its scent radius.

3.6

Considering the natural and sustainable aspects of raw materials as a purchasing factor, pursuing a balance between quality and social responsibility



dsm-firmenich's consumer research indicates that a rising number of Chinese consumers (83%) are becoming more interested and attentive to new fragrance ingredients. A significant proportion of individuals (85%) state that complete transparency in fragrance creation and formulation is highly important to them. They favor perfumes that use natural ingredients, with a significant majority (88%) expressing a preference for such products. They believe that fragrances featuring natural ingredients (such as herbs and flowers) are more valuable (91%), safer (90%) and more effective for medicinal, beauty, and health purposes (74%). Consequently, Chinese consumers are willing to pay a higher price (89%) for natural perfumes.

According to the study, there has been a 24% increase since 2021 in the number of Chinese consumers (88%) who are happy to see more environmentally responsible perfumes. Among perfume consumers, 90% expressed a desire to see perfume brands that take greater responsibility in raw material sourcing and environmental impact. and 43% of consumers consider refillable packaging to be an excellent sustainable solution.

“The use of natural ingredients” stood out as the primary factor for consumers to assess perfume components, particularly for forward-thinking metropolitan and seasoned connoisseurs, alongside their heightened concern for the “environmental friendliness of the ingredients.”

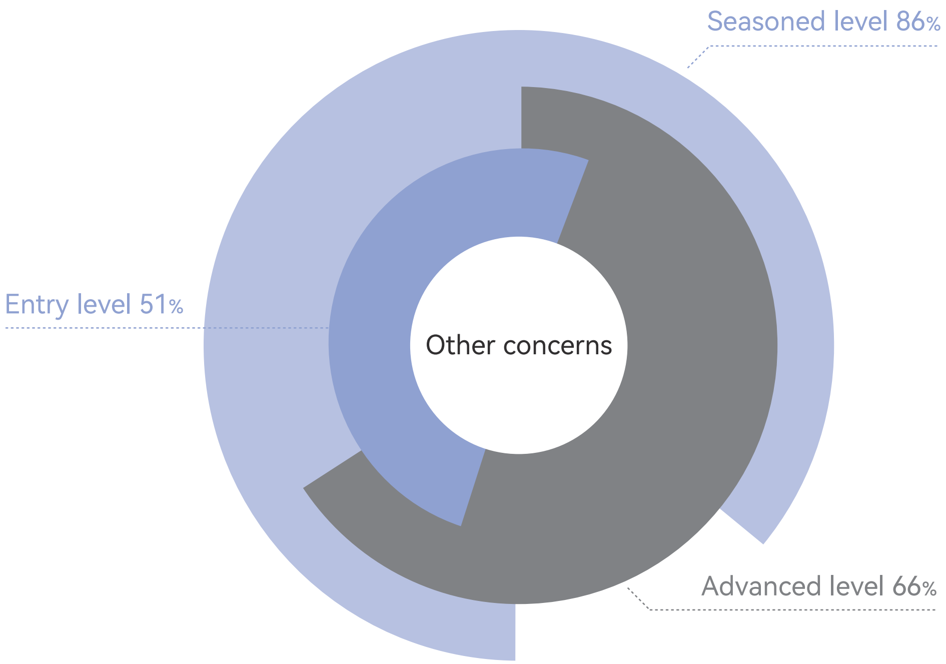
3.7

Eager to obtain professional perfume information from various sources

Overall, perfume consumers are attentive to information regarding fragrances and actively seek to gather it through various channels. Additionally, 51% of entry-level consumers habitually seek out category-related information, while the proportion of seasoned consumers stands impressively at 86%.

"Chinese consumers now have more information than ever before and they are eager to know what's inside the perfume bottles, where the perfumes come from and the stories behind the fragrances."

—— Karim LISI, Vice-President of Business Development for Fragrances in the Asia-Pacific region, Symrise



But there is a dearth of channels for them to obtain professional fragrance guidance.

01. Fragrance recommendations from friends and family are limited:

as only 5% of consumers seek such advice, with the remaining 95% hoping to obtain information from various sources.

02. The limited presence of fragrance boutiques and inadequate category knowledge of sales staff:

are common grievances among consumers. Over 30% of customers complain about the scarcity of stores in their cities, hindering them from gaining in-depth insights into perfumes up close, or store attendants lack expertise in fragrance categories, failing to offer genuine selection support.

03. Limited availability of professional guidance from category experts and KOLs:

consumers universally perceive the current accessibility to fragrance recommendations as insufficiently specialized, particularly among the discerning seasoned users (22%), who want to validate their choices through guidance from category experts.

"There are few bloggers exclusively dedicated to perfumes; many of them are skincare and beauty bloggers instead."

"Their approach is excessively goal-oriented, with the majority seemingly reciting pre-learned scripts like salespeople, merely emphasizing the popularity of a particular product. They lack a genuine understanding of you as an individual, failing to tailor fragrance recommendations according to your unique persona."

"After the video went viral, I received numerous private messages. I sensed that consumers are bewildered, unsure of how to select perfumes; even those well-versed in fragrance crave confirmation for their choices."

—— Piliwuzei, Experienced Fragrance Connoisseur & Leading Perfume Streamer on Douyin

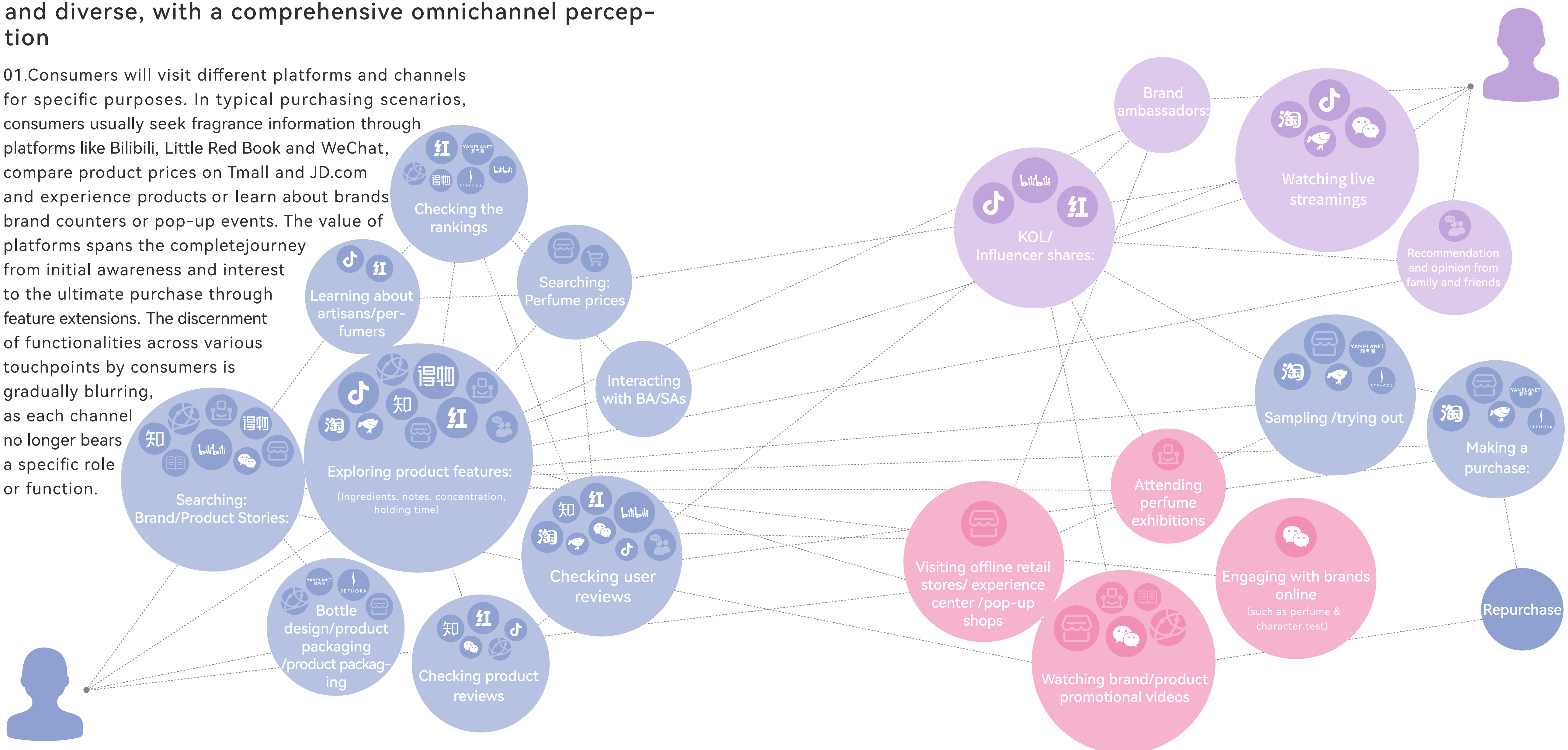
"In the fragrance category, effective interaction with consumers is essential to increase purchase."

—— Meng Zhaoran, Founder of DOCUMENTS

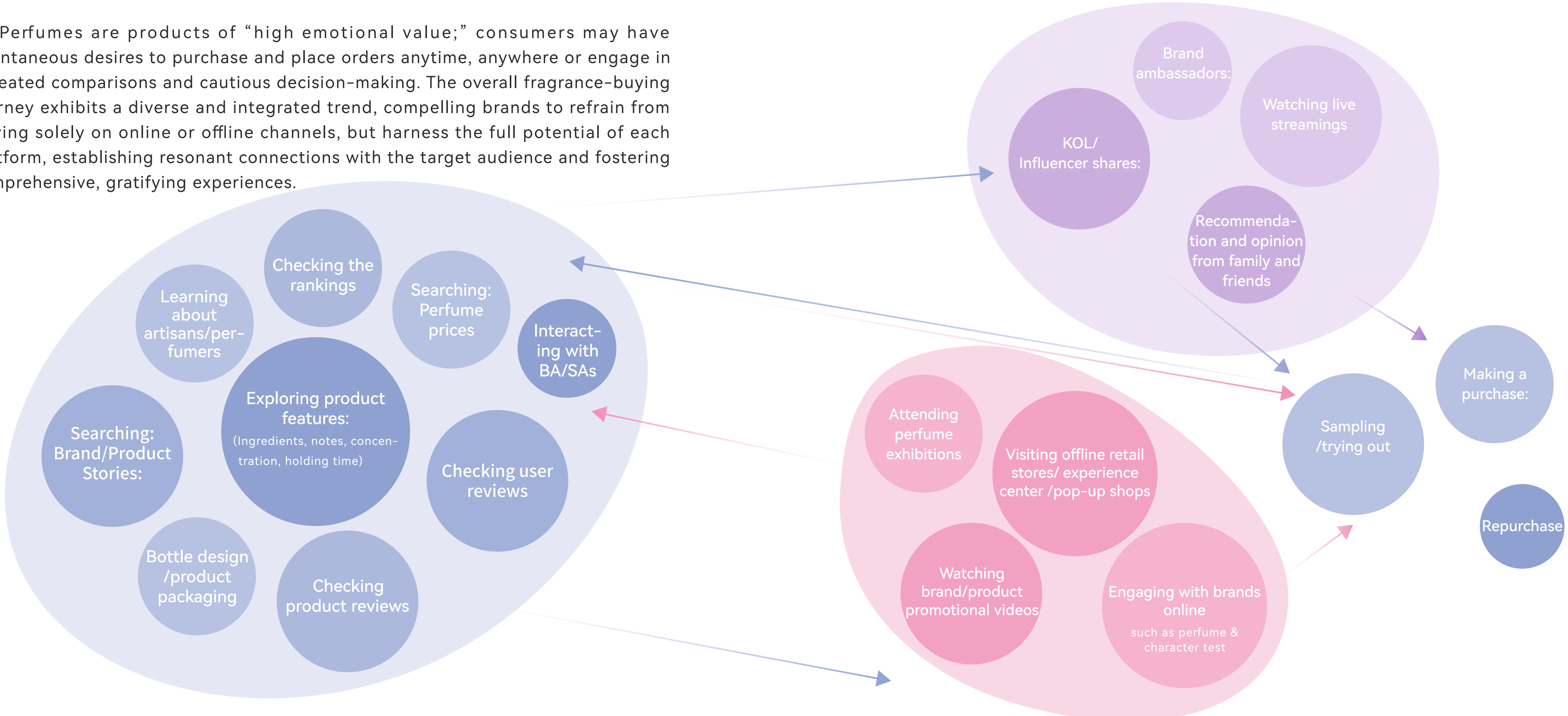
3.8

The fragrance acquisition journey is multidimensional and diverse, with a comprehensive omnichannel perception

01.Consumers will visit different platforms and channels for specific purposes. In typical purchasing scenarios, consumers usually seek fragrance information through platforms like Bilibili, Little Red Book and WeChat, compare product prices on Tmall and JD.com and experience products or learn about brands brand counters or pop-up events. The value of platforms spans the completejourney from initial awareness and interest to the ultimate purchase through feature extensions. The discernment of functionalities across various touchpoints by consumers is gradually blurring, as each channel no longer bears a specific role or function.



02.Perfumes are products of "high emotional value;" consumers may have spontaneous desires to purchase and place orders anytime, anywhere or engage in repeated comparisons and cautious decision-making. The overall fragrance-buying journey exhibits a diverse and integrated trend, compelling brands to refrain from relying solely on online or offline channels, but harness the full potential of each platform, establishing resonant connections with the target audience and fostering comprehensive, gratifying experiences.



Perfume Shopping Scenario: Meticulous Evaluation

Utilizing multiple channels and touchpoints to gain deeper insights into brands, products, and perfume usage

"My first stop is Sephora, where I sniff multiple perfumes, choose a few, and inquire about prices. Then, I'll browse other online platforms and different department stores to compare options before making a final decision."

Perfume Shopping Scenario: Word of Mouth

Quick decision-making in perfume purchases is a result of being directly influenced by bloggers, influencers, or recommendations from people around

"I came across reviews and descriptions of it on Little Red Book. It was deemed a must-have for girls, very refreshing. Without trying it myself, I immediately purchased it at the online flagship store."

Perfume Shopping Scenario: Experience First

Attending events that communicate brand messages and values to develop a strong sense of experiential perception and brand resonance, which leads to repeated purchases

1

Perfume Shopping Scenario 1: Meticulous Evaluation, Multi-Touchpoint Experience

Perfume Shopping Scenario for seasoned consumers. Their approach to fragrance shopping is meticulous, taking ample consideration of whether or not it suits them. They pay close attention to fragrance-related information, particularly the aromatic ingredients and scent profiles, while judiciously utilizing various platforms to gather insights on perfume reputation, marketing/promotional campaigns, and pricing-related details. This study shows that 91% of buyers need trying out fragrances before buying, and are more inclined to do so at a physical store.

2

Perfume Shopping Scenario 2: Word of Mouth, Particularly Live streaming, is A Powerful Force in Driving Fast Purchasing Decisions

Entry and advanced-level demographics are more susceptible to word-of-mouth influence when making purchasing decisions. Given their limited knowledge of fragrances, entry-level consumers are inclined to follow the guidance of friends, family members and KOLs, selecting products that offer a lower risk of disappointment. For the advanced consumers, perfume holds a strong social attribute, helping them stand out from the crowd, making them susceptible to the influence of celebrities and KOLs and enticing them to explore more niche and personalized fragrances.

They gather information about brands and products from brand ambassadors, evaluations from their favorite celebrities/KOLs/influencers and opinions from people around them. They have relatively low demand for trying out/sampling and a shorter purchasing decision path, with 38% directly making purchases on live streaming platforms like Douyin.

3

Perfume Shopping Scenario 3: Experience First - Strong Sensory Perception at Offline Touchpoints

They place particular emphasis on a brand's philosophy and emotional appeal, and seek to establish an emotional connection that leads to purchases through interactions with the brand. They value the ambiance and service experience at brand stores, while keeping a keen eye on brand-led offline marketing endeavors like pop-ups, salons, exhibitions, and co-branding activities to truly embrace the brand's essence and culture.

Inspiration and Reflection

Overall, most fragrance consumers in China are still at an entry level, with the need for greater refinement and sophistication. As consumers gain a deeper insight into the fragrance category, some are gradually upgrading their mindset, usage, and purchasing habits, leading to increased maturity and differentiation.

The need for emotional expression among fragrance users at different levels is becoming apparent. They seek the sensory and spiritual pleasure that fragrances can offer, attempting to use fragrance to interpret their styles, match the scene, and express themselves emotionally. Brands ought to contemplate how to resonate with diverse consumers, artfully attracting them through the interplay of aesthetics, artistic conception and emotive ambience.

There is a growing interest among consumers in exploring fragrance categories, accompanied by an increasing demand for professional information. Consumers ' shopping journeys are becoming more diverse and multi-dimensional, making it impossible for brands to categorize them based on just one single channel . In China's fragrance market, where the fragrance culture is not yet fully developed, the industry must explore various channels to provide consumers with category knowledge and information, in order to enhance their sensory experience. Brands need to penetrate multiple channels and provide professional services to fragrance users in order to increase influence. Apart from fortifying information dissemination through owned media, brands should elevate their sales outlets to experiential touchpoints, thereby intensifying users' omni-channel olfactory purchasing journey and deepening their sensorial cognition of this distinctive product. In February 2023, Tmall's first cohort of certified online fragrance specialists took their positions on official Tmall flagship stores, extending their expertise to consumers by offering professional fragrance utilization techniques and guidance on purchases, to enhance the touchpoint experience and foster a deeper connection between brands and their clientele.

Beginning the fragrance journey with niche options is gaining momentum. Seasoned connoisseurs place emphasis on “seeking out the most fitting olfactory offering tailored to their essence,” with brand attributes being not their primary concern. Opportunities for brands lie in strengthening their product advantages, optimizing product mix, and enhancing interactive and immersive fragrance purchasing experiences.

The fragrance industry must consider the natural and sustainable aspects of its products, to fulfill their social responsibility.

Part 4

Competition Landscape:

Opportunities and Challenges Facing Brands in China's fragrance market

While various fragrance brands are enjoying strong momentum in China, the continuous intensification of market competition is creating crises and uncertainties for brands as they strive for growth. As consumers mature, the competitive edge of international mainstream fragrance brands is diminishing. The entry of more and more international niche fragrance brands into the Chinese market is catching the attention and favor of consumers, making the selection increasingly challenging. International brands, backed by capital, are continuing to exert their strength, intensifying the competition pressure faced by Chinese fragrance brands. This chapter will review past experiences and outline how the brands that have achieved significant growth were able to capitalize on opportunities in the Chinese market.

The main questions explored in this chapter:

What are the future development opportunities for fragrance brands in China ?

- How can international mainstream fragrance brands create new growth curves?
- Will the international niche fragrance market face a "bubble burst?"
- Some high-end international niche fragrance brands have entered the fast lane in China, what have they done right?
- Faced with formidable competition (and the risk of being phased out by the market),what lies ahead for Chinese fragrance brands?
- A century ago, Chanel No.5 orchestrated an enchanting duet, fusing the grace of Aldehydes with precious botanicals, conjuring an aromatic masterpiece reminiscent of Impressionist brushstrokes. As China's perfume brands enter their plateau phase, how can they navigate the path of advancement with poise, speed and far-reaching vision?

Content of this chapter:

"International mainstream brands need to grasp consumer needs and create products that meet the demands of the Chinese market. At the same time, they should draw on the strengths of niche brands to think outside the box."

—— Jean Madar, Chairman of the Board and CEO of Inter Parfums, Inc.

"International brands are looking into look forward to weaving the rich tapestry of Chinese cultural elements into their creations, to promote Chinese fragrance traditions and authentic local ingredients. While paying tributes to tradition, they bestow classics with innovative manifestations, making them highly appealing to China's millennial and Gen-Z consumers."

—— Olivier Viejo, Vice President of Fine Fragrance APAC, dsm-firmenich

4.1

International mainstream fragrance brands: pro-actively adjusting brand strategies to foster a second growth curve

01. Mainstream fragrances consolidate a robust presence in the market through brand revitalization

「Versace」 As the gateway to luxury olfactory journeys, Versace fragrances are revolutionizing brand aesthetics, communication conceptualizations, product curation, and distribution channels. It has penetrated both entry and seasoned users with contents, rekindling a desire for timeless creations, attaining both brand prominence and commercial triumph. The revitalizing strategy has yielded enduring triumph for both the Versace Pour Homme and Versace Bright Crystal fragrances, and the brand has delivered a resplendent performance: In Q1 2023, the brand had a cumulative exposure of 465 million on Weibo, with Taobao and JD.com sales witnessing an astounding YoY surge of 34%.

- **Bringing the brand closer to consumers through new visual narrative:** in January 2023, announced Versace's worldwide fragrance ambassador, Li Xian has been bolstering the launch of Versace's latest creations by new KVs.

- **Unveiling an haute couture product line to fulfill consumers' individualistic aspirations:** combining precious and inventive ingredients with the inspiration for fabric creation, a fresh collection is brought to life. At the same time, the packaging incorporates artisanal handcrafted techniques, making each high-end perfume an exclusive and distinctive expression of individuality. In May 2023, Versace opened its first independent haute couture fragrance boutique in Lingnan, which drew the attention of numerous consumers.

- **A new omni-channel concept with rich contents generate buzz for the brand:** focusing on the brand image of "romantic", "individualistic", "fresh", and "free", Versace adopted a matrix-style promotion across all channels featuring "celebrities + vertical bloggers + KOLs", which resulted in a peak in brand awareness in Q1 of this year.

「Prada」 has revamped both product and marketing to achieve a dual push towards brand reputation and image, leading to rapid sales growth on Taobao and Douyin in Q1 of 2023.

- **"New Perspective + New Packaging" for new product ideas:** In September of last year, Prada released its latest women's fragrance, Prada Paradoxe. Paradoxe offers a novel perspective on female traits, showcasing the multifaceted and self-consistent and intriguing personalities of Prada women. The packaging features a triangular prism that constructs the classic Prada logo, blending the brand's iconic style with a touch of reinvention. The bottle's design is a balance of sharp angles and curved edges, resulting in a pointed yet balanced aesthetic that reflects the brand's pioneering creativity.

- **Through "pop-ups + celebrity marketing" initiatives, Prada reached a broad fan base and expanded its user base:** the first perfume specialty store was opened in Shanghai in September of last year, with the "Green Box" fragrance pop-up space presenting in Réel. The brand then held pop-up activities in Haikou CDF and Haitang Bay CDF in November and early January, respectively. In December, Prada collaborated with artist Cao Fei for an "Unpredictable" dialogue, where they shared stories about fragrance, self-expression and creativity.

02.Multi-category endorsement by hero products accelerates perfume expansion

「Armani」's high-end market penetration receives a boost through the integration of celebrity marketing, exhibitions, and luxury gift sets, driven by its haute couture makeup line, with "Red Cushion Foundation" as a hallmark, and limited edition haute couture fashion, gaining extensive welcome among high-end product users. Vert Malachite GIORGIO ARMANI was one of the top 3 best-sellers across the entire ALIBABA from January to May 2023.

- Celebrity marketing: Armani's global beauty brand ambassador, Jackson Yee, promoted Vert Malachite GIORGIO ARMANI fragrances through a global tour. Other celebrities such as Jackson Wang, Elaine Zhong, and Tanya also promote their fragrances.

- Last December, Armani opened its first global flagship store "Unbounded · Red Hall" in One Avenue, Shenzhen, a beauty space that allows customers to experience all product categories, including haute couture makeup and skincare. In February, the Shanghai Exhibition Center held the " Wandering in Time and Space" #Armani Armani/Privé Exhibition#, showcasing 4 types of haute couture fragrance products. The exhibition ingeniously combined haute couture clothing with fragrances, including limited-edition haute couture fashion collections debuting on the international runway and runway-exclusive haute couture fragrances. Celebrities such as Jenny Zhang, Austin Li, Mai Zi, Elaine Zhong, and Jackson Wang presented.

- During the Chinese Valentine's Day, Armani launched a Armani/Privé gift box, included a limited edition fragrance soap from the same collection. On May 20th (520), Armani released an haute couture fragrance gift box.

03.Provide meticulously customized fragrances for Chinese consumers

「Armani: SANTAL DĀN SHĀ」 Armani's new release for 2023, taking inspiration from the Summer Palace, capturing the essence of fragrant gardens with the belief that "where there is nature, there is scent, and where there are mountains and waters, there is vitality," With notes of sandalwood, cardamom, and lemon, this fragrance presents a fresh and lively olfactory experience.

「Guerlain: Xi'an」 A city limited-edition perfume, created by Thierry Wasser, Guerlan Chief Perfumer, within 18 months. With the historical and cultural charm of the ancient capital Xi'an as inspiration, it is a perfect integration of the top note of bamboo scent, the middle note of jasmine scent, and the base note of sandalwood scent. The graceful and lush elements blend seamlessly, much like the exquisite gardens coexisting with the majestic city walls of Xi'an, offering a poetic enchantment and a profound sense of empowerment.

「Estee Lauder: Paradise Moon」 creatively uses the leather element and three kinds of osmanthus essences, capturing the osmanthus scent that renowned perfumer Rodrigo Flores-Roux smelt on the streets of China during autumn 2019 to bring a gentle, clean, sweet, and joyful olfactory experience.

"There is a growing desire among people to find unique, niche brands that set them apart."

——Jean Madar, Chairman of the Board and CEO of Inter Parfums Inc.

4.2

International niche fragrance brands: precisely positioning to amplify consumer experience to the utmost

01.The pursuit of individuality by Chinese consumers offers a fertile breeding ground for international niche fragrances.

44%
Express themselves

36%
Exude quality

29%
Ensuring that they do not use the sae fragrance as others

43%
Represent their individuality and taste

a. **Catering to the “real demand” of Chinese consumers - expressing individualistic tastes through niche products**

Chinese perfume consumers are maturing, driving an increasing demand for international niche fragrance brands. The survey found that 60% of perfume consumers are increasingly drawn to niche fragrance brands, a 6% increase from last year. They want to use niche fragrances to “express themselves (44%).” “represent their individuality and taste (43%)” and “exude quality (36%),” while “ensuring that they do not use the same fragrance as others” (29%).

b. **Reaching consumers in lower-tiered markets**

With the growing segmentation of consumers, international niche fragrance brands will gradually expand into lower-tiered markets.

In terms of demand, while perfume users in 1st-tiered cities are becoming familiar with certain niche fragrance brands, these brands still have relatively low penetration rates in2nd - and lower-tiered cities. Nonetheless, consumers in lower-tiered cities also want to "be unusual" and "display their uniqueness". Compared to 2022, consumers in 2nd-tiered cities have shown a 4% increase in trying out niche fragrances. Additionally, overall awareness of niche fragrances has increased among consumers in 2nd- and 3rd-tiered cities. As omni-channel coordination becomes a trend, international niche brands have more interactive ways than ever before to engage with consumers, which helps to reduce the "reach barrier" they commonly face. Leveraging the momentum of short videos, live streaming, and content e-commerce, these brands can reach consumers in lower-tiered cities more easily, thus capitalizing more opportunities.

c. **Influence the young demographic in high-tiered cities by enhancing their first fragrance experience**

Some consumers in 1st-tiered cities begin their fragrance journey with niche options. Fortifying the maiden fragrance experience for entry-level users helps brand to attract savvy young consumers, ensuring lasting impact of international niche fragrance on the emerging generation.

60% of perfume consumers are increasingly drawn to niche fragrance brands, increase from last year

6% ▲

Consumers in 2nd-tiered cities have increased in using niche fragrances.

4% ▲

02.An engaging brand strategy that enchants Chinese consumers to maximize consumer experience

Niche perfumers draw inspiration from profoundly personal moments, crafting olfactory offerings that express their thoughts and emotions at specific times and places. Niche fragrances are characterized by their unique and story-driven DNA. To penetrate the Chinese market, perfume brands must deftly and effectively convey the creator's inspiration and brand essence, while considering the needs of Chinese consumers and identifying the means and contents that inspire them.

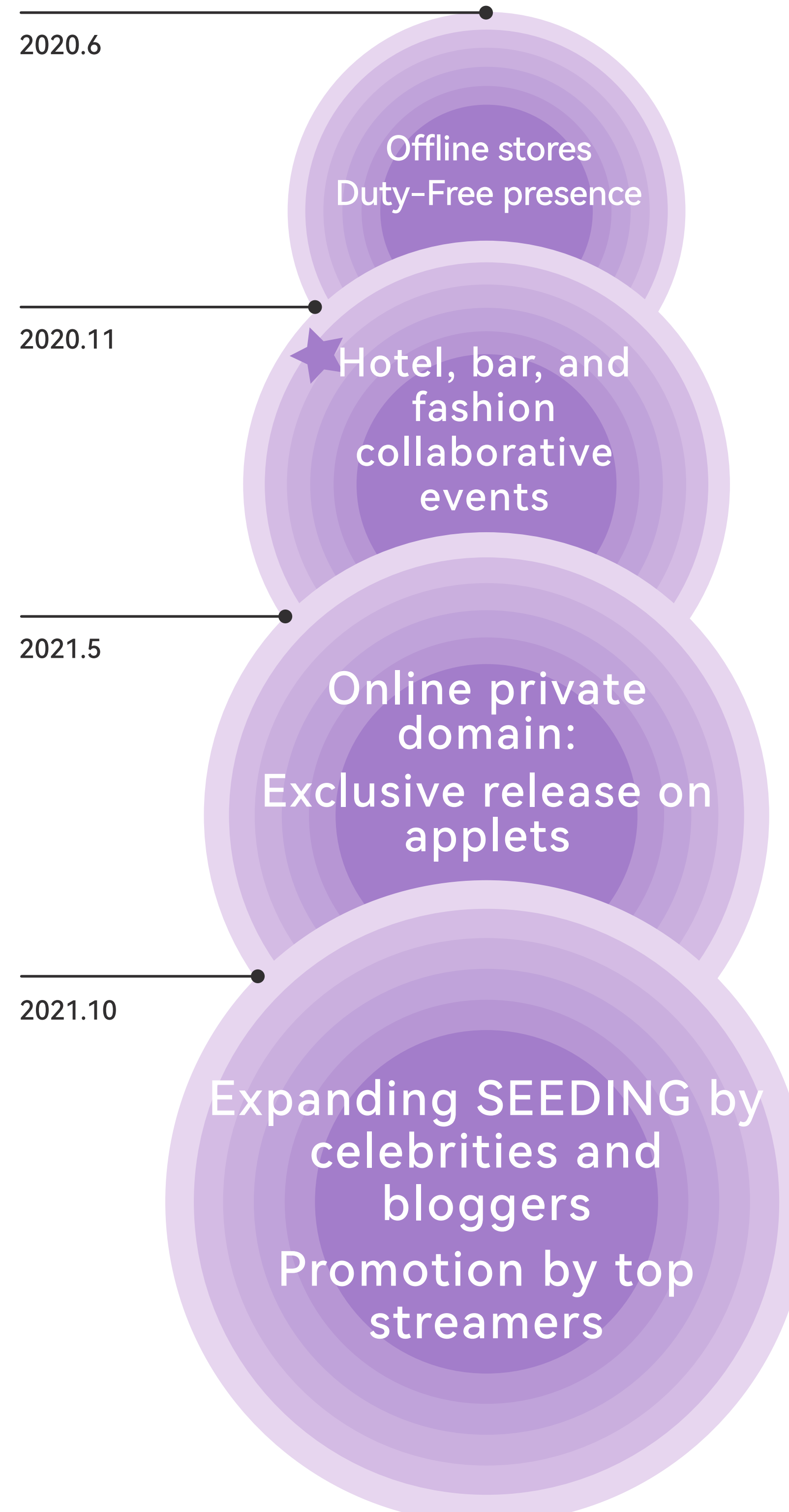
a. Direct, artistic and easily understandable fragrance names

「Etat Libre d' Orange」s a renowned expert in fragrance naming. The brand name aligns with the founder's pursuit of creative freedom in fragrance creation, and each product name embodies a distinct, evocative olfactory concept, making it truly unique. Take the popular fragrance "You or someone like you" for instance, its cool and crystalline peppermint profile is reminiscent of the protagonist Anne from the eponymous novel by American author Chandler. "The Afternoon of a Faun" captures the essence of French poet Stéphane Mallarmé's renowned poem with an herbal scent, artistically expressing the lingering and enigmatic aura of the deity after his midday slumber.

b. Finding the right channels that align with the brand's vision for faultless experience

「BY KILIAN」the founder, being a direct descendant of the Hennessy family, leverages their family legacy in China by adopting a strategy of multi-channel offline penetration, followed by "online private domain + celebrity bloggers" to attract customers.

BY KILIAN's brand-building strategy and pathway——start with offline expansion, followed by a vigorous online presence in private domains, fueled by substantial marketing investments for user acquisition.

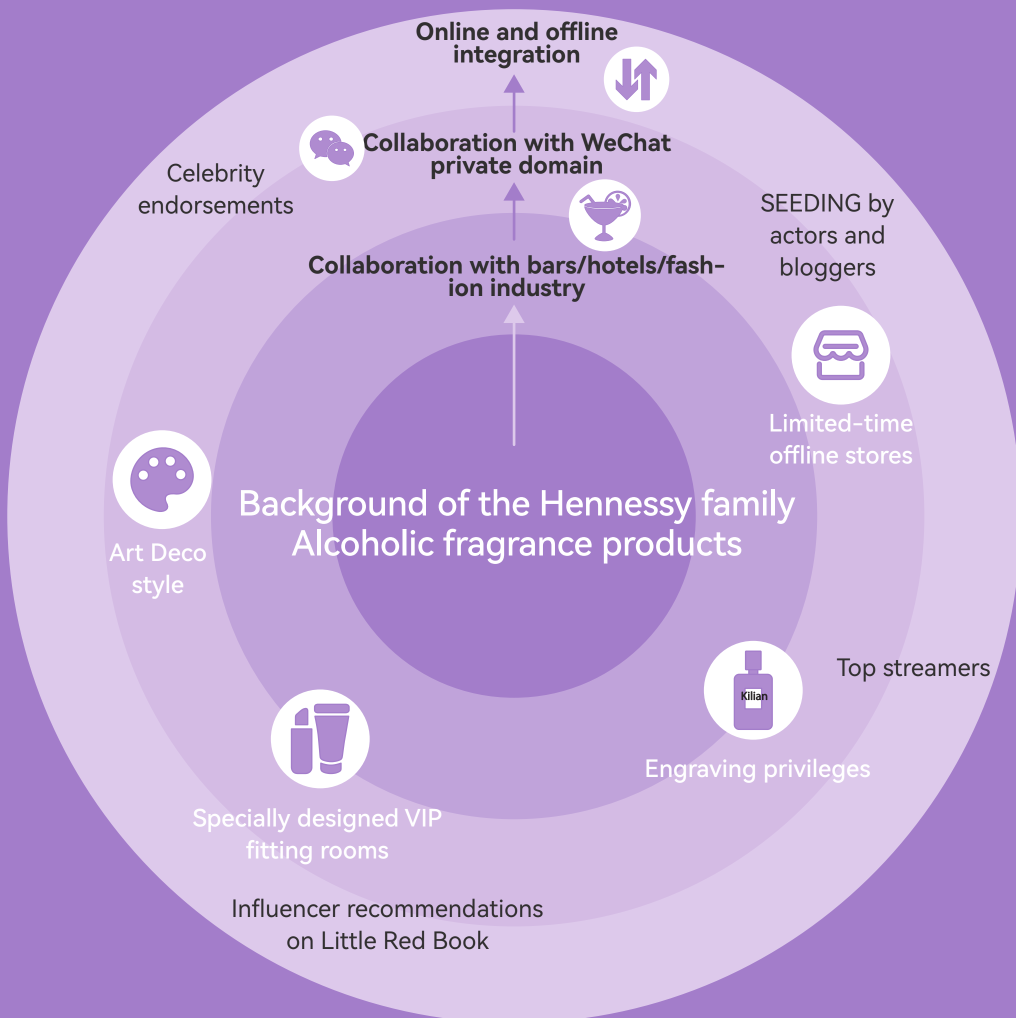


- Expanding offline presence first; Currently, there are a total of 14 boutique stores and duty-free channels in the market
- Exclusive store engraving privileges
- Limited-time POPUP fragrance art lounge featuring fragrance, jewelry and limited-edition handbags

- **Event highlights:**
  - Limited-time signature cocktails
  - Order a drink + follow the official account to receive exclusive fragrance perks
  - Order a special cocktail + check-in on Little Red Book to receive diffuser stones and fragrance vouchers
  - First 50 customers ordering on Thursday themed nights + check-ing in on Little Red Book can enjoy a buy-one-get-one offer
- Partners: Shanghai EDITION Hotel, Andaz Xintiandi, Shanghai Hotel, @TAXXSHANGHAI, etc.

- Member operations
- Authenticity assurance

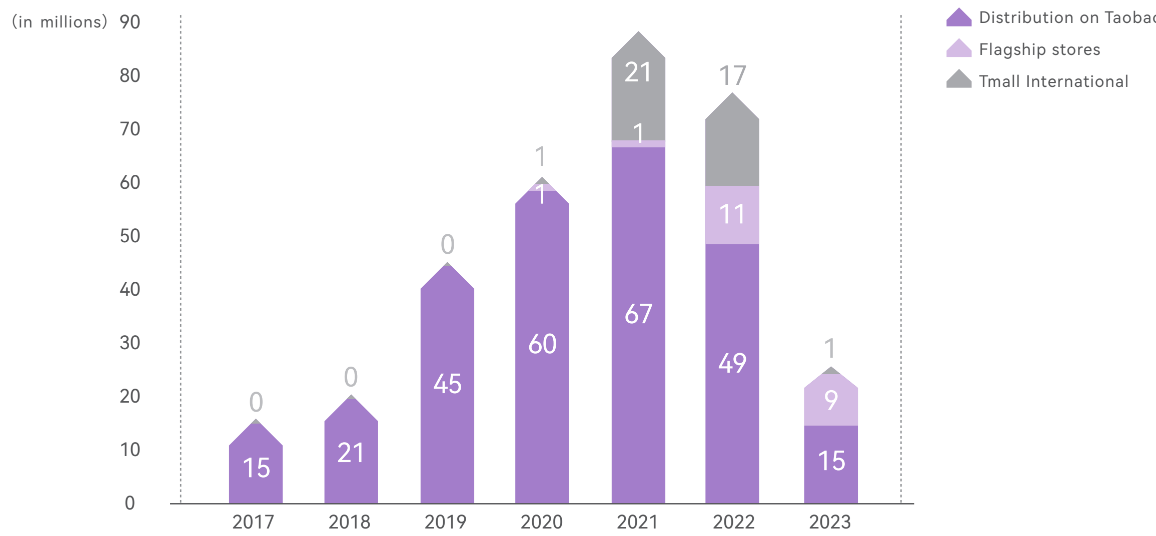
- SEEDING on Weibo and Little Red Book
- Offline event attendance
- Celebrity endorsements, video promotions



「Le Labo」 means "The Lab" in French. As the brand founder said, "The craft of perfumery is the most seductive part of fragrance." Le Labo focuses on the art of scent and fragrance production. Therefore, in channel selection, Le Labo simplifies the process and transforms each store into a fragrance laboratory. The stores feature an industrial style, with each having an independent operational space where perfumers, dressed in lab coats, create perfumes for customers on the spot, to create a unique opportunity with an immersive experience for customers. After then, the shop assistant will print the name and the Ideal Period for Usage to enjoy on the perfume bottle.

「Creed」, a royal niche fragrance brand founded in 1760, entered the Chinese market through distribution. Over the past two years, the brand has adopted a scene-based management approach, creating a multifaceted consumer experience and shifting its business focus towards flagship stores while generating buzz through various offline pop-up stores.

Performance of Creed in various channels over the years



c. Ignite resonance by reaching out to key voices in the perfume community

「Atkinsons」 born in London in 1799, it is a century-old royal niche fragrance brand that embodies the spirit of British pioneers from various eras. One of the key demographic groups for niche fragrances are young, career-driven individuals living in high-tiered cities. After the pandemic, they have been actively seeking out new ways to enjoy life, showing their unique personalities and tastes. Fragrances such as Atkinsons' 24 Old Bond Street and Mint & Tonic's Rootless Water offer unique liquor scents that provide a distinctive olfactory experience, while creating a relaxed and slightly tipsy atmosphere, perfectly align with the characteristics of niche fragrance fans. The brand reaches out to core voices in the fragrance community, sparking hot discussions among niche fragrance enthusiasts on platforms like NoseTime.com and Little Red Book.

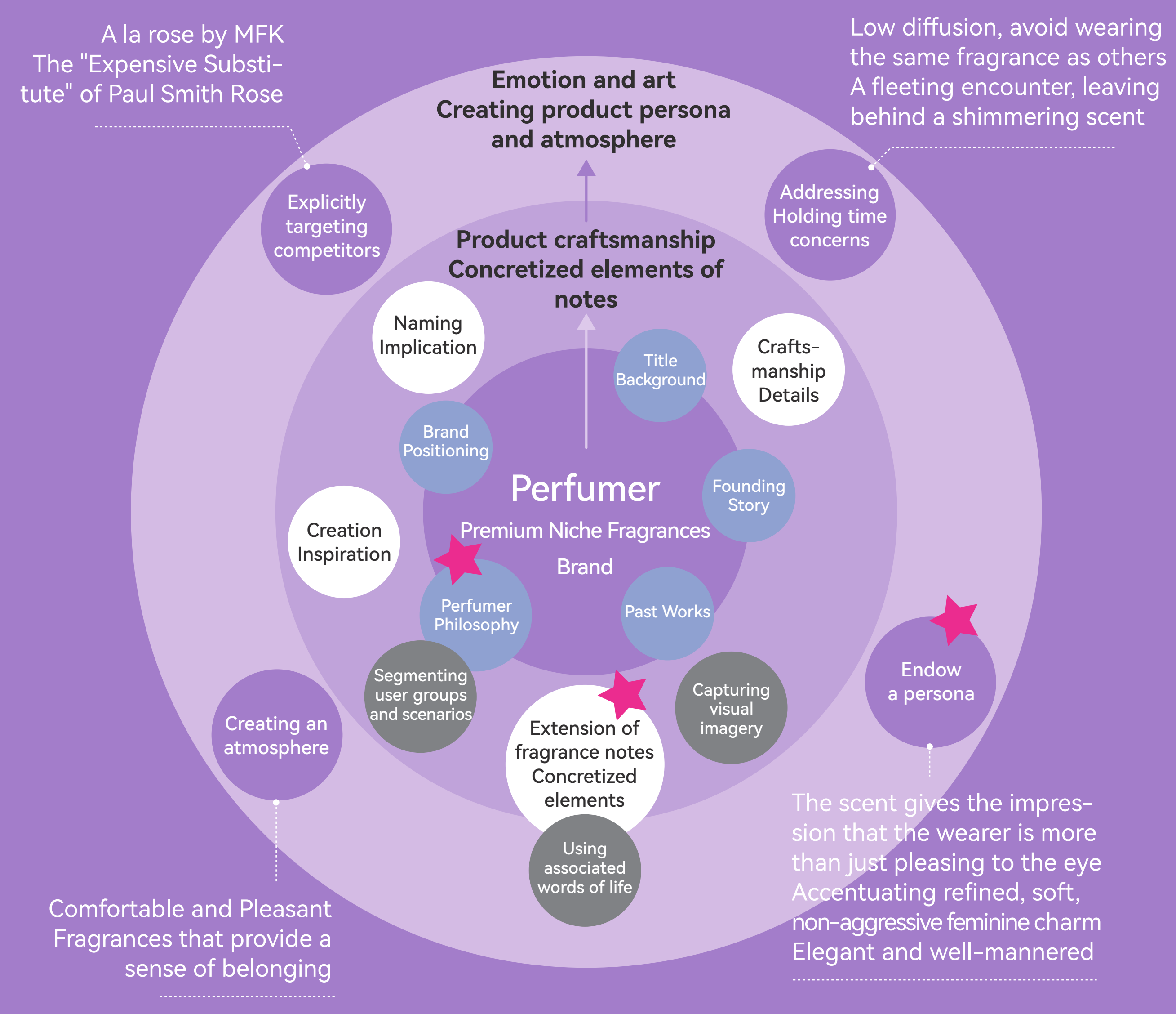
d. Fostering an all-encompassing ambiance for communication and promotion

「Maison Francis Kurkdjian」 amplify the endorsement and philosophy of the perfumer, highlight the concretized elements of notes, target specific user segments and scenarios to captivate users.

Maison Francis Kurkdjian proposes the concept of a "fragrance wardrobe," advocating the "art of wearing fragrance" and encouraging consumers to choose fragrances based on seasons, moods, and weather. The brand advocates freedom, sensuality, and exquisite perfectionism.

Therefore, in their internal and external communication, the brand focuses on three main aspects: 1) Brand/Perfumer: highlighting the background, positioning, and creative philosophy of the brand, as well as the perfumer's background, past works, attitude, and philosophy. 2) Product Inspiration and Craftsmanship: concretely segmenting and differentiating the product based on groups and scenarios. 3) Emotional and Concrete Expression: endowing the product with a persona and creating an atmospheric experience.

Summary of MFK Brand and Product Communication - Amplify the endorsement and philosophy of the perfumer, highlight the concretized elements of notes, target specific user segments and scenarios to captivate users



e. Blurring the boundaries of categories, emerging as a lifestyle brand

「Aesop」, a skincare brand with a unique artistic sense and brand philosophy, has opened four stores in Shanghai in recent years, leading the trend of neutral minimalism and natural healing. In 2001, responding to customer demands for perfumes that matched their body care products, Aesop blurred the boundaries between skincare and fragrances by launching its first line of perfumes and transforming into a true lifestyle brand. Aesop's perfume products, such as "Tacit" and "Eidesis," adhere to its unique brand temperament, helping consumers explore new olfactory experiences.

"The Chinese brands are one step ahead in understanding the Chinese consumer. They are born and raised in China, and most of them are head by young entrepreneurs. They are growing fast, and they know how to play with their offer to cater to the local consumer & local heritage."

—— Karim LISI, Vice President of Business Development for Fragrances in the Asia-Pacific region, Symrise

"We need to prioritize long-term benefits over short-term gains."

—— Meng Zhaoran, Founder of DOCUMENTS

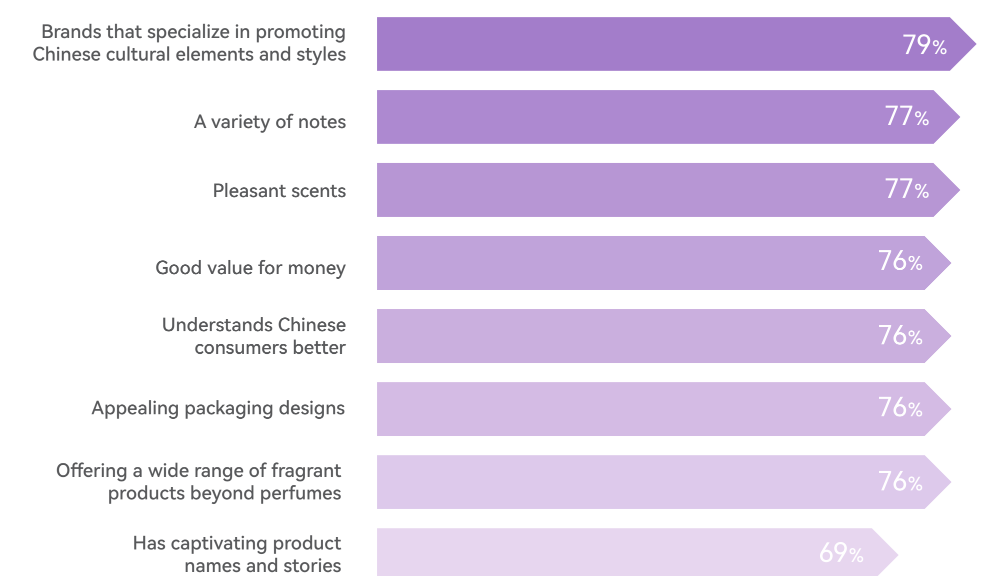
4.3

Chinese fragrance brands: embracing visionary foresight, ascending further through a tactful and steadfast approach

01.Rooted in the nation's development and confidence, Chinese domestic brands possess significant growth potential.

a. The current confidence of consumers in Chinese brands is largely due to their recognition of the quality and innovation of these brands in the context of the nation's rapid development, rather than being solely driven by low prices or national pride. In this research, when asked about their impressions of Chinese fragrance brands, most consumers not only view them as trendy brands featuring Chinese elements with high cost performance, but also acknowledge their diverse notes, pleasant scents, and attractive packaging. Moreover, they believe these brands better understand Chinese consumers and present more captivating concepts and narratives.

Perceptions of Chinese Fragrance Brands (%):



b. Chinese domestic brands are closer to the Chinese consumers and the market, having opportunity to eliminate cultural barriers and better present Chinese fragrance in a more precise and improved way. For instance, while the Western culture advocates "work hard, then play hard", the East Asian Culture emphasizes a "reward yourself, immerse and relax" mentality. More and more Chinese perfumers and brand designers, with a profound comprehension of local culture, are designing and creating fragrances, providing domestic brands with infinite possibilities.

02.Breaking away from traditional cultural norms, Chinese fragrance brands have discovered new possibilities for expressing Eastern scents, and are exploring non-traditional Chinese aesthetics to appeal to consumers.

a. Tapping into urban imagery and collective memories of the Chinese people

「To Summer」 launched its "China Sweet" collection in November 2022, including "Beiping Sweet" , "Hangzhou Sweet" , "Suzhou Sweet" , etc.; the third one of this series is "Beiping Sweet" , aiming to evoke childhood memories of the brisk Beijing breezes and the delectable sweet and sour dishes. Collaborating with young director Chai Xiaoyu for the ad campaign, the brand used elements such as hawthorn fruit and the roof tiles of traditional Chinese courtyards to visualize the scent of Beijing city.

「The Beast」 launched an artemisia sachet and fragrance collection, a fragrance that has been used in Chinese culture to ward off summer heat for centuries, in time for the 2023 Dragon Boat Festival. The brand presents two Chinese intangible cultural heritage crafts: Yunnan Yi embroidery and Xu Hang straw weaving, in a modern and fashionable manner, utilizing the scent-printing technology of NaturePrint® to recreate the authentic aroma of three-year aged artemisia.

b. Responding to the trends and offering emotional value

「WOOD JO+」 has launched a line of temple-inspired fragrances to create inner peace for young people who are tired and anxious, and are turning to temple visits as a means of escape. As consumers shift their focus from the pursuit of poetry and distant lands to the everyday hustle and bustle, "WOOD JO +" has introduced the "Lingdongzhujiu" fragrance, offering a warm and cozy sensation with its subtly inebriating apple wine scent.

「SECRETS' DOOR」 is adept at capturing inspiration from both the inside and outside of life, providing fragrance users with a spiritual sensory experience beyond their imagination. Their signature "Off Duty" fragrance from the black label collection captures the sentiment of "letting go of societal expectations and embracing freedom to stand out" .

c. Interpreting the Chinese lifestyle of self-enjoyment

「Melt Season」: as a Chinese brand, Melt Season combines traditional Chinese aesthetics with western inspiration by presenting a diverse olfactory world that is understated, restrained, serene, yet full of vitality. In 2022, Melt Season introduced an opulent collection of six fragrances, artfully themed "Bottled Realms," wherein every perfume unveils a concealed yet vividly poetic universe.

03.Innovative product expansion and cultural exploration of Chinese brands

a. 「RE CLASSIFIED」 offers a full range of products, with a particular focus on body care and an emphasis on expanding its fragrance categories. The brand also engages with customers through various offline events, such as fragrance-themed activities and concerts, through cross-overs.

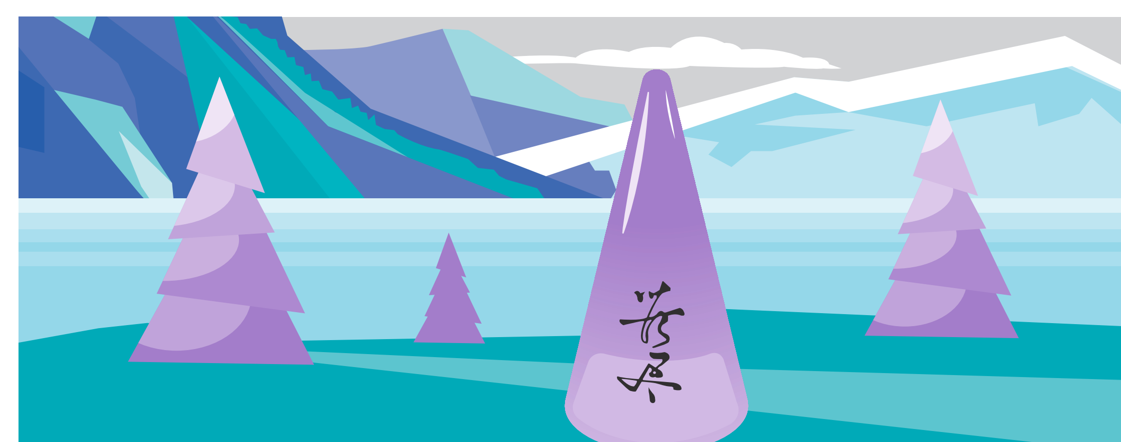
- Covering all categories:
- Developing body care products with the same name and same scent as its perfumes, such as essential oil body lotions and hand creams. The brand is also continuously expanding its home fragrance product line, such as flameless diffusers, aromatherapy crystals, volatile liquids, and scented candles, and using traditional craftsmanship to create artistic crossover products:

Teaming up with UCCA and The TANG, RE CLASSIFIED held an Aranya Art Experience Salon and Forest Fragrance Workshop in May this year.

Partnering with ELAND to launch scented candles and Shanghai Philharmonic Orchestralimited-edition volatile liquids and hosting a "Spring Fragrance Concert" where visitors can visit the orchestra, enjoy string quartet performance, and attend a fragrance knowledge class.

b. 「Chunfeng Shili」 continues to iterate the brand's visual style, using humanities and emotional materials to evoke deep resonance.

- Brand' s visual iteration: from low-interactive antique content to a clean and cozy natural atmosphere, and then to the new "People and Culture" content creation, the brand and its founder have been constantly innovating, bringing high-quality perfume content to consumers.
- Putting people first and emphasizing emotional resonance: the founder not only personally talks to consumers, but also takes a hands-on approach to filming promotional videos during campaigns. Meanwhile, in the brand new "People and Culture" series, the founder visits obscure landscapes throughout China, engages in deep conversations with locals, and incorporates local customs and traditions to create products that maximize emotional resonance.



Inspiration and Reflection

The growing maturity of Chinese perfume consumers and the ever-fierce competition within the industry pose greater challenges for brands. In response:

- **Major international mainstream brands need to innovate and improve, finding new sources of growth and achieving sustained expansion**

International mainstream brands have honed a strong advantage through their capital, technologies, and talents, but they also face a crisis of brand aging and weak personal expression. Some industry brands have actively adjusted their brand strategies through brand revitalization, the development of high-end perfume lines, and local customization.

- **International niche fragrance brands need to accurately target consumer needs and develop strategies that can better resonate with consumers.**

Chinese consumers' pursuit of individuality provides fertile ground for the growth of international niche fragrance brands. However, only by truly understanding consumer needs and communicating with them in the right way can brands win their favor. Some brands have impressed Chinese consumers by maximizing their experience through interesting naming strategies, flawless channel experiences and atmosphere-based promotional strategies.

- **Chinese perfume brands should consolidate their strengths and look far into the future**

Chinese perfume brands have been emboldened by national confidence. With roots in the domestic market, these brands possess a deeper insight into local culture. Therefore, domestic perfume brands should contemplate how to convey Chinese consumers' values, rather than simply stacking Chinese elements or relying on Chinese aesthetics.

Part 5

Comprehensive Operations: creating an Omni-Channel Experience in China's pe-rfume market

Perfume is a sensory-oriented consumer product with strong experiential value. Consequently, for consumers, distribution channels are not just places of transaction, but also venues of experience.

In the past year, online distribution channels, specifically live streaming e-commerce platforms like Douyin, have achieved impressive growth due to their content advantages. Perfume-related live streaming has brought great opportunities and challenges: Consumers expect to learn about perfume brands and products through influencers, but the threshold of "perfume-related live streaming" is particularly high, with few industry vertical KOLs. After the pandemic, consumers have more opportunities to experience and purchase perfumes through offline channels. Therefore, their expectations of obtaining good experiences have further increased. This chapter will focus on the "new trends" and "new opportunities" of various online and offline channels in China's perfume market.

This chapter focuses on:

As the influence of online live streaming grows, how can different brands seize the opportunity?

- Will live streaming platforms become a battlefield for low-priced perfumes? Where do the opportunities lie for international mainstream fragrances and international niche scents?
- To date, what transformations have occurred in perfume-related live streaming?

As offline stores have become a battleground for high-end fragrances, what untapped possibilities now exist in this arena?

- What changes have been observed in the offline presence of international luxury brands?
- Given the inherent advantages of international luxury brands in terms of channels, how should niche/domestic brands respond to competition?
- What new retail formats or innovative spaces are worth paying attention to?
- How can offline stores further enhance the experience they offer?

Content of this chapter:

"I was astounded to find that the average viewing time per viewer in my live streaming exceeded 4 minutes, I know there is vast potential."
—— Piliwuzei, Experienced Fragrance Connoisseur & Leading Perfume Streamer on Douyin

5.1

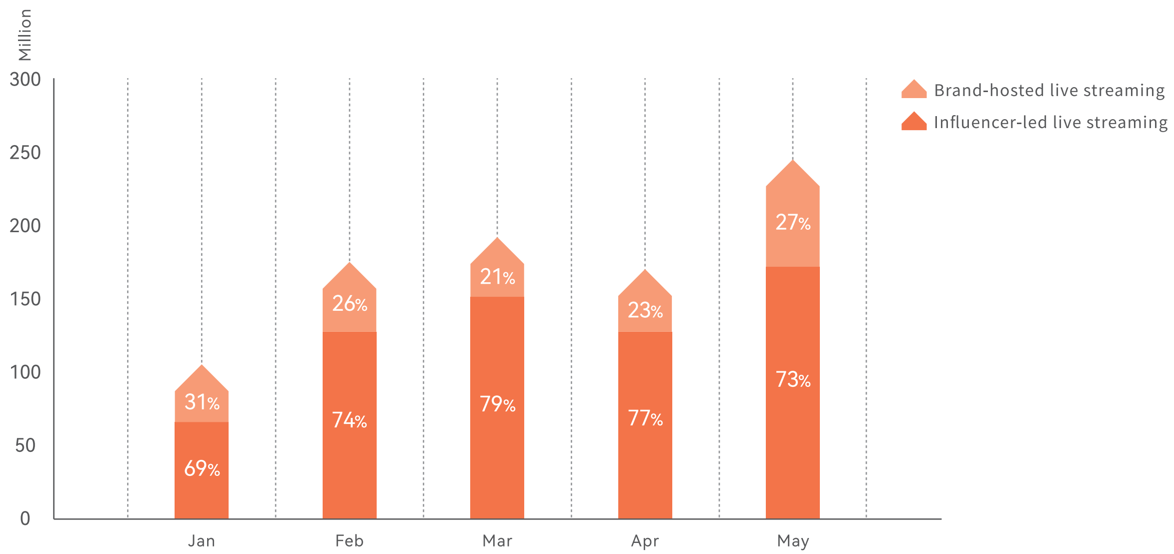
Perfume-related live streaming has evolved from a rudimentary and unsophisticated approach to a more refined and carefully executed stage, relying on high-quality content to drive growth opportunities.

01.International mainstream fragrance and international niche fragrance brands are leveraging live streaming platforms to expand their presence, recognizing the crucial role that influencers play to link the brand and consumers.

a. According to MKTINDEX, live streaming channels, specifically Douyin, have delivered a sales growth rate of more than double from January to May this year. In this survey, 30% of consumers considered purchasing perfume from live streaming platforms.

b. Brand-hosted livestreaming is increasing with expanding influence. Among the top 20 perfume brands on Douyin channels from January to May 2023, most are domestic brands, with two international mainstream fragrance brands and two international niche fragrance brands. Most of these top-ranking brands have brand-hosted livestreaming to promote their products. Overall, influencer-led streaming is still the main driver of sales in terms of livestreaming.

Proportion of Brand-hosted Streaming/Influencer-led Streaming in Douyin, January - May 2023



Source: MarketIDX

Douyin Channel Perfume Sales Ranking, Jan-May, 2023

Y23 M1-M5 Brands		Y23 Overall Market Ranking
Perfumer (Fpf)	Chinese Fragrance	1
Agent Provocateur	Chinese Fragrance	2
Dior	International mainstream fragrance	3
Jo Malone	International niche fragrance	4
Versace	International mainstream fragrance	5
Ttouchme	Chinese Fragrance	6
Sifenya	Chinese Fragrance	7
Chunfenshili	Chinese Fragrance	8
The Beast	Chinese Fragrance	9
HomeFacialPro	Chinese Fragrance	10
Boitown	Chinese Fragrance	11
Sellion	Chinese Fragrance	12
Liangzi	Chinese Fragrance	13
Rvx	Chinese Fragrance	14
CARLOTTA	Chinese Fragrance	15
Rissers	Chinese Fragrance	16
Maison Margiela	International niche fragrance	17
Bvlgari	International mainstream fragrance	18
SHILIYA	Chinese Fragrance	19
deold	Chinese Fragrance	20

Source: MKTINDEX

02.Perfume-related live streaming has entered a stage of refined operations, characterized by precise targeting and pinpointed focus

a. When it comes to live streaming, the perfume industry has transitioned into a phase of refined operations. While top-tier streamers remain, the focus has shifted to a multitude of mid-tier streamers to spur growth. Previously, streamers who had quietly cultivated niche markets in the beauty industry are now receiving increased attention from consumers, as the traffic dividends dissipate. In terms of approach, content-based live streaming has become the new benchmark, with live streaming increasingly based on real-life experiences and authentic content sharing. “Shouting-style” live streaming is no longer universally applicable.

b. While the number of niche perfume bloggers is on the rise, the quantity of perfume bloggers remains sparse compared to that of beauty bloggers. This is mainly because Chinese consumers primarily use perfumes to satisfy their spiritual needs, and the scent of perfumes cannot be vividly conveyed through videos or images, resulting in a higher threshold for bloggers to present perfumes through live streaming. Nevertheless, exceptional perfume bloggers still exist in the industry, each with their own distinctive style. What they have in common is a clear positioning of their accounts and a remarkable ability to create compelling content.

【Piliwuzei】——

Building a bridge of communication between perfumes and consumers, emotionally and atmospherically recreating fragrances

According to feigua.cn, during the 11.11 shopping festival in 2022, Piliwuzei topped the list of perfume stores on Douyin, with estimated sales between 10 to 25 million RMB, making it the only store with monthly sales surpassing tens of millions. As a leading perfume streamer, she was invited to participate in the variety show “Streamers for All Girls” in May this year, and her expertise in perfume appreciation was praised by Austin Li, a Chinese internet celebrity and top live-streamer.

Piliwuzei possesses an in-depth understanding of both perfume products and user experiences, knowing how to forge connections between fragrances and consumers through content contents. She has unique insights into each perfume, including the notes, the progression of scents from the top to the base, the perfumer's style, the brand's history, and more. During live streaming, she employs emotional and artistic expressions, a plethora of descriptive vocabulary to concretize the scents, imbue products with personalities, and create an atmospheric sensation after use. She also uses techniques such as picture-in-picture and animated graphics to recreate the described scenarios, visually guiding the audience to choose the perfume that suits them best.

Piliwuzei describing Bois de Vetiver by Karl Lagerfeld during a live streaming session:

Karl Lagerfeld—Bois de Vetiver



Shanghai IFC Mall

Taikoo Li Chengdu

New world of Shanghai

Nanjing Deji Plaza

5.2

Win-win cooperation between high-end perfume offline stores and trendy commercial spaces

With consumers' elevated aesthetic sensibilities and increasing demand for service experiences, the brick-and-mortar channel becomes a battlefield for high-end perfume brands in terms of image building and product experience.

High-end commercial spaces offer powerful location advantages for these brands, and in return, the presence of high-end perfume brands injects vitality into these spaces. Since 2022, over a dozen niche perfume brands have set up independent stores or counters in the trendy central districts of core first-tier first-tiered cities (Beijing, Shanghai, Guangzhou, Shenzhen) and emerging second-tier second-tired cities (Hangzhou, Nanjing, etc.) Fashionable hubs like Shanghai IFC Mall/New World, Chengdu Taikoo Li, Nanjing Deji Plaza have become prime choices for them.

5.3

Synergy between online and offline channels: creative expressions for flawless experience

Where commerce culminates, art commences; where art culminates, commerce commences. Selling perfume is not just about vending scent, but their intangible values such as emotion, imagination, memory, and the craftsmanship of the perfumer. Offline spaces are an exceptional means for consumers to immerse themselves in the brand's story and spirit in a deep way.

> “Business and art are indispensable to each other, especially for high-end brands that require an artistic perspective - something romantic and compelling.”
>
> ——Meng Zhaoran, Founder of DOCUMENTS

01.Brand stores - Replicating the original flagship store/retaining iconic elements to show authentic brand features.

「Frederic Malle」

Almost every Frederic Malle boutique retains some iconic elements such as the portrait of perfumers, low-temperature storage cabinets, private consultation rooms, and Smelling Columns for scent exploration.

- Portrait of perfumers showcases Frederic Malle's unique “Perfume Publishing House” philosophy: granting perfumers complete creative freedom, the first in the industry.
- Low-temperature storage cabinets demonstrate the brand's professionalism and rigor in perfume preservation.
- Smelling Columns are designed for trying out, allowing customers to experience the wonderful feeling of wearing perfume.
- Fragrance Interactive Compass is an intelligent guide engineered for customers searching for fragrances that capture their individuality, steering them towards the most fitting scent selections that resonate with their distinct tastes.
- Proust Fragrance Questionnaire is an exclusive soul-searching questionnaire helping consumers identify their own unique scent.

「Santa Maria Novella」

Santa Maria Novella's flagship store, located in Florence's eponymous monastery opposite the train station, has preserved many furnishings over a hundred years old, including antique perfume bottles, cosmetic containers, pharmaceutical vessels and herbal books written by monks. Every perfume consumer visiting the store can fully immerse themselves in the historically rich aromas. After entering the Chinese market in 2022, the brand is committed to showcasing its rich and unique brand history to Chinese consumers:

- The first Santa Maria Novella boutique in China resides in Shenzhen. Retro crystal chandelier, old wooden tables and chairs, slightly worn antique mirrors and wall coverings that replicate the murals of the Florence store - each element embodies the brand's profound legacy.
- The second store is in Shanghai, replicating the oldest pharmacy furnishings of the flagship store in Florence with monastery closets and church tiles, as well as vintage crystal chandeliers and wooden tables and chairs.

02. Pop-up shops/experience stores - Combining local characteristics with brand elements to enhance the connection and interaction within a limited space.

In collaboration with Chengdu Taikoo Li, Creed held the “Millennial Empire” pop-up event from May 11 to May 22, 2023, which featured the physical manifestation of a fragrance sampling room for the first time. Additionally, limited daily supplies of Chengdu's signature Sichuan pepper cocktails and iced coffee were available, seamlessly integrating Chengdu's chic and relaxed atmosphere with the fragrance of the millennial empire, providing fragrance aficionados with a gilded platform to show their individuality.

「Creed」

03.Large-scale perfume exhibitions - Emphasizing creativity, brand heritage and unique craftsmanship

「Diptyque：Monologues of Materials」

exhibition has minimized the link to scent and concentrated on materials instead. Four materials were chosen to represent the brand's history: flowing wax, spraying clay, transparent glass and soft fabric, generating a material-based world that envelopes visitors. It fully demonstrated Diptyque's expertise in craftsmanship and interesting creativity.

「Chanel：The Art of Perfume」

2023 continued the story of "Chanel No. 5" and deepened the perception of the EXCLUSIFS DE CHANEL and other perfumes. It provided visitors an entrance to the world of Chanel's perfume, allowing them to explore personalized fragrance experiences and perfume courses, and feel the creative ingenuity and professional craftsmanship.

04.Fragrance Parties/Tasting Salons - Professional and Stylish Scent Interactive Platform

「Dior：La collection privée Salon」

in The Ritz-Carlton, Nanjing on June 24, 2023, featuring a showcase of perfumes and fragrance products for attendees and exclusive on-site fragrance consultations. Additionally, professional fragrance instructors were present to guide guests in a hands-on experience of crafting their own fragrance, providing a complete appreciation of the collection's charm.

「Creed：Spring Fragrance Appreciation Party」

presented in collaboration with The Mixc Mall Hangzhou. This exclusive event took VIC members on a journey of scent discovery through Creed's fragrant wonderland. Starting with fragrances that are well-suited for spring, the event offered VIC specialized fragrance consultations. Moreover, a celebrated domestic fragrance critic, Mr. Li Jing, was invited to delve into European history and provide an immersive experience of the Creed fragrance trend.

5.4

Upending conventional Practices, Heightening Experiential Consumption, and Creating Multiple Fragrance Spaces for Consumers to Enjoy

> "Consumers are stepping out of shopping malls and engaging in activities outdoors or in neighborhoods. Shopping is no longer just about buying things, but about experiences."
>
> ——Meng Zhaoran, Founder of DOCUMENTS

01.Holistic lifestyle - Diverse and flexible community operations

With the rise of lifestyle-focused comprehensive retailers, offline beauty brands' retail is no longer limited to singular formats like Sephora and Afiona. These new retailers stand out from traditional stores by being experiential, flexible and community-oriented.

a. Lifestyle fashion retail: Multi-category Collection, One-Stop Experiential Consumption

「hAo mArket」

hAo mArket brings together over 3000 products from 24 countries and regions, spanning categories including fragrance, beauty, home decor, and more, while also providing coffee, afternoon tea, and art. It has transformed retail into a one-stop community space, offering like-minded consumers a trendy lifestyle experience that merges nature and fashion.

b. Lifestyle beauty retail: Scene-based Operations, Immersive Brand Concept Highlight

「LITTLE B" by The Beast」

The concept convenience store "LITTLE B" is a new attempt by the Beast to expand into lifestyle branding. It transforms traditional retail shelves into a "beautiful convenience store," integrating snap taking, exhibitions, and experiential activities. Collaborating with numerous niche brands, it offers urban ladies a space of exquisite fragrances that are "small and beautiful."

c. Perfume and Fragrance Collection Store: Creating Exclusive Diverse Spaces for Fragrance Enthusiasts

「La Porte」

As a niche perfume studio tucked away in Guangzhou's Dongshankou area, La Porte aims to provide an intimate and personal space for fragrance enthusiasts to indulge in their olfactory pleasures. Curated by the owner, Koon, the store' s merchandise and decor reflect his strong personal touch. Its exclusive appointment system aligns perfectly with the niche fragrance's ethos, catering to personalized fragrance selection and sampling needs.

「OTOLA」

calls itself a "scent museum" and a "global collection store for niche fragrances." It sources fragrances from around the world with compelling stories and logical disposition, enriching the fragrance experience through multi-dimensional communication involving sight, sound, smell, taste, touch and the "sixth sense."

「BlueBox Candle Gallery」

BlueBox is a global fragrance collection store specializing in aromatherapy, fragrance oils and scented candles, with a comprehensive selection of over 100 home fragrance brands, including limited-edition products.

02.Breaking Traditional Retail Norms

Faced with competition from international high-end fragrance brands in China's premium offline market, many Chinese perfume brands have broken traditional retail norms to continuously innovate.

> "By opening a street-side store on Yuyuan Road in Shanghai, DOCUMENTS, a high-end Chinese fragrance brand, is moving away from the traditional high-end shopping malls. Visitors can read books in the store; and the results have lived up to expectations."
>
> ——Meng Zhaoran, Founder of DOCUMENTS

a. Unique Designs Make Stores New Urban Landmarks

「Aesop」

Every Aesop store is intimately connected with the surrounding neighborhood, maintaining the brand's identity while incorporating local characteristics, making them new landmarks for visitors.Aesop's store in New World Shanghai is a prime example of "serenity amidst bustle" . The brand's transparent "glass box" is nestled within a Shikumen-style alleyway, resulting in a dynamic interplay between contemporary structural aesthetics and traditional alleys. The Grand Gateway 66 store integrates with the streetscape of Xujiahui, with indoor Jiaobao fruit trees and buttonwood landscapes complementing each other and exemplifying the continuity between indoor and outdoor spaces.

b. Beyond Conventional Stores: Embracing Public Cultural Spaces

「DOCUMENTS: DOCUMENTS Bookstore」

In May 2023, DOCUMENTS opened the DOCUMENTS Bookstore on Yuyuan Road, Shanghai, reimagining the boundaries between beauty retail and brand expression. The bookstore combines books and fragrances, offering a fresh exploration of the olfactory experience.

Although fragrance isn't the primary focus, the pleasurable scents accompanying reading subtly embed the brand's products in consumers' minds. DOCUMENTS gives consumers a space to create their own offline experience: read, smell, meditate or entertain their children, enabling them to explore and express themselves..

c. Integrating City Cultural Features to Create an "In-Place Atmosphere"

「To Summer：To Summer Idle Courtyard」

To Summer recently settled in an aged villa on Hu'nan Road, Shanghai. With the use of Chinese classical garden design techniques such as "framing scenes" and "creating scenes" and the brand's refined fragrance as an accompaniment, this building effectively transmits the brand's all-encompassing Oriental aesthetic concept to consumers.

「Cosmic Speculation：Upper Stair」

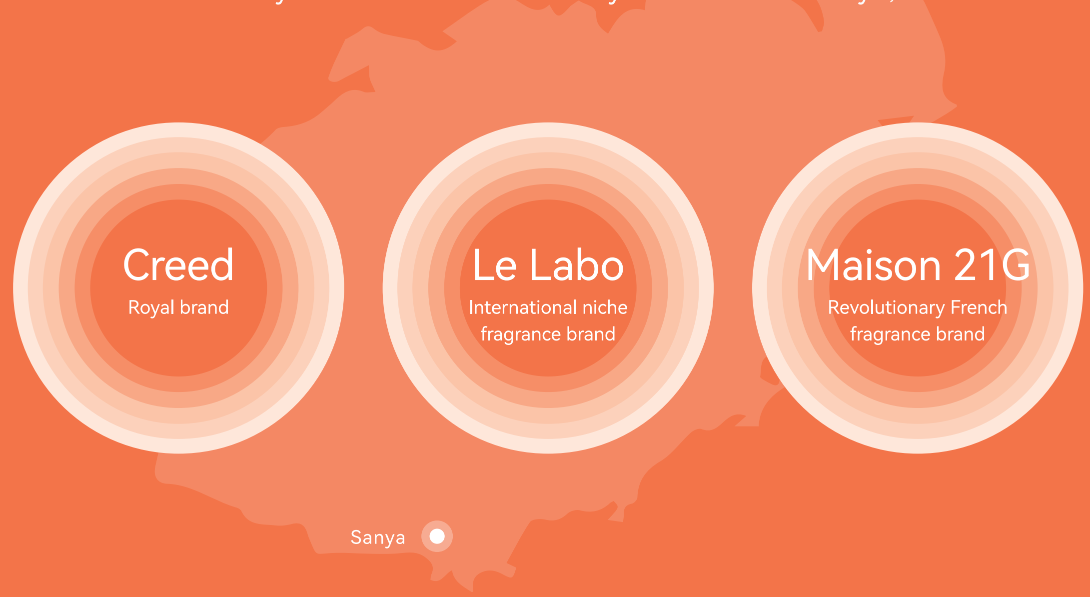
Cosmic Speculation expanded its offline presence with a second location in Dongshankou, Guangzhou in June. The region is known for its abundance of Lingnan-style western-style buildings, which perfectly accommodate the fragrance space.

5.5

Tourist retail channels: the long-term development of duty-free shops

Consumers who shop through duty-free channels not only have certain requirements for product quality and brand, but also expect a "value-added" brand experience. For brands, duty-free shops carry the responsibility of sales and brand exposure, as well as shaping their brand image. During the pandemic, Hainan offshore duty-free shops saw continuous prosperity due to policy support. Additionally, with the relaxation of border controls, airport duty-free channels have regained their popularity thanks to the natural flow of high-end consumers. This not only offers an outstanding platform for brands to deliver its values, but allows them to selectively screen potential consumers.

Perfumes have always been an active category in duty-free channels, and the diversified competition in the fragrance market is becoming evident. As more fragrance brands choose to speed up their entry into duty-free channels, Hainan's duty-free stores have become the go-to choice due to favorable policies. Royal brand Creed is also expanding its presence in Hainan and exploring mainland China's duty-free channels. International niche fragrance brand, Le Labo, which officially entered China in June, has announced its presence in CDF Sanya in July. Maison 21G, as a revolutionary French fragrance brand, also views duty-free channels with great optimism and has already established its first duty-free store in Sanya, China.



Inspirations and reflections

Influencers is are crucial to consumers' fragrance purchasing decisions, acting as a vital link between brands and consumers. Compared to the past, perfume-related live streaming has entered a stage of refined operation, with leading streamers exploring ways to resonate and deeply connect with consumers through content contents. We look forward to seeing more fragrance KOLs advancing with the industry. As a crucial battlefield for perfume brands, offline retail is witnessing an intensified competition, with players leveraging their strengths to expand their footprint. International mainstream and niche brands are continuously deepening their presence in high-end commercial districts, offering consumers unparalleled experiences through events such as pop-ups, exhibitions, and fragrance appreciation meetups. Some international niche brands and Chinese perfume brands are actively exploring unique retail channels that cater to personalized consumer demands, providing consumers with a differentiated different and outstanding experience.

Part 6

The Foundation of Growth: Exploration and Innovation of Perfumery Products

As China's perfume market grows, a diverse array of international perfume brands has entered China, and Chinese perfume brands have risen to prominence, giving Chinese consumers more choices than ever before. Some perfumes, with a timeless appeal, are always the bestsellers in the contemporary market, while others have experienced swift rises and falls, and some fail to generate any buzz over time. Wang Wei, COO of Eternal said, "Some brands/products can withstand the test of time, while others are just a fleeting trend. So, we should be cautious and rational, returning to the essence of 'quality.'"

The main questions explored in this chapter:

What are the characteristics of bestselling fragrances?

What innovative measures have emerged in the perfume market?

How has the integration of technology and tradition provided new insights to the perfume industry?

?

Content of this chapter:

6.1

Product is the King: Breaking Through and Leading with Smell, Concept, and Appearance

01.Creating a bestselling perfume is a great concern for brands and investors. However, perfumes are intimately linked to the era and subjective experiences, and the mystery of bestselling perfumes cannot be summarized with a single methodology. Each era witnesses different creative concepts and expressions of perfumes, and each consumer's understanding and experiential demands for fragrances are unique. Nevertheless, we can still discern certain commonalities among those beloved by consumers:

a. Groundbreaking ingredients and innovative olfactory directions:

Perfume ingredients are like a perfumer's palette, where they use imagination and olfactory sensitivity to create unique fragrances. High-quality and rare ingredients can result in extraordinary perfumes, while the fusion of unique scents can generate a broader spectrum of fragrance styles.

「 Issey Miyake：L'eau d'Issey」

stands out as a classic example of the impact of Japanese brands on the perfume industry in the 1990s. By skillfully blending the transparent, watery feel of the synthetic ingredient calone with fresh floral notes, and packaging it all in a sleek and elegant design, Miyake started the trend for aquatic fragrances.

「CLEAN：Reserve」

exemplifies purity that comes from within in a world where people are placing greater importance on eco-friendly and sustainable lifestyles. The brand's dedication to a natural and fresh olfactory experience is reflected in its use of pure and natural perfume formulas and eco-friendly packaging, making it a paragon of purity in the fragrance industry. The Reserve collection continues this commitment to purity by using distinctive scent profiles to present different clean notes.

b. Empathetic storytelling or creative concepts:

Perfumes create olfactory experiences that go beyond the sense of smell, evoking memories or desires from within.

「Guerlain：Shalimar」

In the early 20th century, Parisian aristocrats were drawn to the exotic opulence of the Orient. Against this backdrop, Jacques Guerlain, founder of Guerlain, drew inspiration from the ill-fated romance between Emperor Shah Jahan and Princess Mumtaz Mahal to create Shalimar, evoking a mystical and opulent impression of the East, enveloped in a golden aura, for Western society.

「Diptyque：L'Ombre Dans L'Eau」

is inspired by a Greek myth, in which a young man falls in love with his own reflection and eventually transforms into a narcissus flower.

c. Spearheading the Cultural Zeitgeist and the Latest Trends in Fashion

Perfume's history is marked by a succession of rebels who courageously challenged conventional aesthetics and stereotypes, becoming trailblazers of their time and inspiring generations to come.

「Le Labo：Santal33」

In the past 10 years, amidst the rising tide of commercialization, Le Labo has reconnected with the essence of scent art, leading the movement for niche perfumes with its simple, authentic, and gender-neutral brand and fragrance designs. Santal 33, with its exquisite and romantic expression of sandalwood, has sparked a global trend in woody fragrances.

「Caron：Tabac Blond」

created in 1919 for women who smoked, was the first tobacco-note fragrance for women. With its leather and tobacco notes, it was seen as a symbol of women's liberation from traditional gender roles.

「Yves Saint Laurent：Rive Cauche」

created in 1971, was a fragrance that embodied the values of breaking free from traditional marriage constraints. In its ad campaign, a free-spirited woman driving off into the distance, symbolizing a new era of female independence and self-determination.

d. Manifesting High Aesthetics through Packaging Which is Full of Artistic Expression

In China, many consumers fall in love with a perfume because of its bottle. A well-designed perfume bottle not only arouses the desire for beauty and purchase but also helps consumers understand the fragrance's character through its appearance.

「Van Cleef & Arpels: Feerie」

collection features exquisite craftsmanship, with the bottle cap crafted in the image of a fairy and the glass body carved to resemble a giant sapphire that sparkles like a dazzling star, depicting a world of fairies after dusk falls.

「Bottega Veneta: Knot」

Informed by the glassmaking heritage of Venice and the time-honored artisanal techniques of Italy, Knot's bottle boasts refined, rounded lines. The handcrafted knot-shaped cap is a hallmark of the Bottega Veneta brand, while the deep golden hue of the bottle symbolizes the gradual ripening of fruit, infusing the fragrance with an air of luxurious sensuality.

「Lalique: LALIQUE DE LALIQUE」

René Lalique, the founder of Lalique, was a visionary artist who revolutionized the world of jewelry. His first perfume bottle design marked the beginning of luxurious perfume bottles and packaging. Each year, the LALIQUE DE LALIQUE fragrance line commemorates its heritage by offering a limited-edition crystal collector's bottle.

02.Some perfumes have remained unchanged in name over the years, making only slight adjustments to their formulas, as classics leave lasting impressions and continue to be cherished:

Chanel

「Chanel: Chanel No.5」

is hailed as a timeless classic in the perfume world. Back in time, Chanel No.5 utilized a synthesis of aldehydes and exclusive natural ingredients to depict an aldehydic floral fragrance that resembled the impressionist painting, elegant yet individual. The Chanel No.5 collection now includes five different fragrances, each embodying distinct personality traits.

Hermès

「Hermès: Terre」

The creation of Terre was a year-long journey for perfumer Jean-Claude Ellena, who deeply immersed himself in the world of wine culture and was inspired by the profound links between soil, grapes, and the aging process of wine. After 17 years of evolution, this perfume has been released in four versions to cater to different audiences.

Guerlain

「Guerlain: Heritage Collection」

pays homage to the legendary creations of five generations of perfumers since the brand's establishment in 1828, with each drawing inspiration from a love story which is a blend of reality and fantasy.

6.2

Direction for Innovation: Returning to the Real Self, Caring for Body, Mind, and Nature

As the times change, the perfume market also undergoes transformation.2023 witnesses some new perfume concepts and product trends that align to a certain extent with the expectations of Chinese perfume consumers:

01.No longer seeking tranquility and understatement but expressing praise for life through warm fragrances.

a. Grammy Award winner Ariana Grande launched her MOD fragrance collection in 2022, and one of the scents, MOD Vanilla, features notes of freesia, vanilla, and cocoa that create a clean, warm and cozy fragrance experience.

b. Maison Margiela launched On A Date, which mixes blackcurrant and rose to create a rich jam-like scent that gradually evolves into a sweet red wine aroma, capturing the romantic memory of sharing a bottle of wine with a loved one in the sunset.

c. Penhaligon's Solaris is inspired by the sun, allowing you to bask in the warmth and sweetness of the sunshine.

02.Use of Plant-Based, Herbal Green Elements to Express A Desire for Simple and Green Lifestyle

a. ISSEY MIYAKE introduces A Drop d'Issey, a natural perfume that captures the lightness of a drop disappearing into the morning mist. The fregrance, made up of 85% natural ingredients, features rainwater, lilac, and sandalwood that embody the spring's vitality.

b. Coach's Green men's fragrance opens with juicy kiwi notes, followed by earthy and woody base notes, creating a fresh and vibrant urban aroma.

c. DOCUMENTS'NON-SEASONS collection records the ambiguous seasons of our times, with the hope of stimulating contemplation of our relationship with the natural world.

d. L'Artisan Parfumeur's Le Potager collection draws inspiration from the lively vegetable garden of a perfumer. This collection blends innovative and classic notes to create a poetic and pastoral fragrance.

03.Highlighting the Therapeutic Effects of Fragrance, with A Keen Focus on Holistic Well-Being and Self-Care

a. Abel Odor launched Pause, a fragrance specially designed for menopausal women on World Menopause Day, conveying a positive message of "starting a new journey in life" to women going through this phase.

b. The founder of Vyrao, a British fragrance brand, established the company based on the belief that scents can change people's perception, improve their mood, and amplify their energy. Each perfume bottle contains a Herkimer diamond, bringing spiritual energy to the user.

c. Maison Francis Kurkdjian has added a new member to the Aqua Cologne forte collection - Aqua Media Cologne Forte. The collection conveys the idea that a healthy mind comes from a healthy body.

d. By delving into the intricate link between the brain's functionality and the olfactory system, The Nue Co. has leveraged data insights and research findings from the Geneva University's Brain and Behavior Laboratory to create a line of fragrances called "FUNCTIONAL FRAGRANCE."

04.Upcycling Ingredients to Highlights the Sustainability and Natural Aspects of Perfume

a. I Am Trash by Etat Libre d'Orange's utilizes discarded apple from the food industry, as well as rose petals and sandalwood chips left over from the production of other perfumes, which are then subjected to a second distillation process. Despite its unconventional use of "trash" materials, the fragrance "I Am Trash" emits a charming and inviting scent.

b. Aeir distinguishes itself with a focus on technology and sustainability. Aeir's commitment to sustainability and environmental responsibility is reflected in its use of biotech formulas that replicate natural ingredients and reusable aluminum packaging.

c. With J'adore Parfum d'eau, Dior, as a brand challenging conventions yet again, introduced a fresh and pure fragrance made entirely from water as its base, with the same holding tome as traditional Eau de Parfum, creating a new path for Dior fragrances.

d. Tamsworth Distilling launched Sylvan Mist, the world's first drinkable gin perfume, inspired by ancient Egyptian perfumes and featuring the scent of jin, flowers, and plants.

05.A Modern Take on Classic Scents: The Interplay between Floral and Fruity Notes

a. Soleil de Feu by Tom Ford is a seductive and sensory fragrance highlighted by the perfect blend of sandalwood, tuberose, and warm amber.

b. Her Eau de Toilette by Burberry features green pear and strawberry notes, complemented by the lush floral notes of lily of the valley and rose, and the captivating warmth of musk and cedarwood. The signature fruity notes, mixed with an enchanting base note, result in a captivating, confident and free-spirited scent.

6.3

R&D Upgrade: In-depth Market Knowledge in China by the Ingredient Sector, with Technology Consistently Empowering Innovation

To stay ahead of the ever-changing consumer market, the ingredients sector is constantly expanding its knowledge of the Chinese market and utilizing technology to enhance its innovative potential.

01.Establishing Spaces for Co-creation and Resonating with the Chinese Market and Fragrance Users

At the start of 2023, Firmenich collaborated with Xunxisuo to create an exclusive Chinese fragrance space, Villa Harmony. This exclusive collaboration project aims to reshape exquisite craftsmanship and revitalize Chinese fragrance culture. By working with Chinese fragrance experts, the two sides carry forward traditions while exploring new possibilities, exchange knowledge and ideas to bring fresh fragrance creativity and inspiration to both local and global brands.

02.Orienting R&D Efforts Towards Improved Capabilities Based on Consumer Trends

a. dsm-firmenich has launched the new Firgood™ collection, which uses revolutionary sustainable extraction technology to create 100% natural extracts, and has successfully introduced the industry's first natural fragrance ingredient - lily of the valley flower. This groundbreaking technological innovation has enabled the safe and sustainable extraction of commercially viable lily of the valley extract for the first time in fragrance history, providing perfumers with a unique and rare olfactory creative element. In addition, Firmenich has launched a new generation of EcoScent Compass® - a comprehensive scientific assessment tool that utilizes a vast amount of sustainable data to aid in the design and creation of eco-friendly fragrances. This tool determines the sustainability of fragrances from three aspects: internal environmental attributes, environmental impact, and social impact.

b. Symrise launched the ACTIMOOD® last year, an in-depth initiative supported by neuroscience and developed in collaboration with external clinical centers to explore the connection between emotions and fragrances scents (from raw materials to finished perfumes) and design fragrances that can stimulate specific emotions. Symrise has gained a patent called Vertacetal Coeur, which prevents hyperactivity and helps consumers relax, leading to better sleep quality at night.

The new Firgood™ collection

100%

Natural extracts

03.Speedily Crafting Fragrances for Chinese Consumers through Strategic Alliances with Digital Platforms

Tmall Innovation Center (TMIC) and Givaudan debuted "Creatogether", the first AI-powered fragrance co-creation service in China, in the latter half of 2022.This service is based on the latest Tmall Industry Innovation Laboratory TLAB 2.0; by combining TMIC's olfactory culture map with Givaudan Carto's insights data, it shortens the entire product development cycle from the usual 40 weeks to just 4 weeks, providing users with instant, accurate, and personalized fragrance products.

Inspiration and Reflection

“

Best-selling perfume products bring commercial success to creators and define a generation's olfactory memories. Such classic products are a comprehensive success in terms of concept, brand, scent, design, and pioneering nature. Sustained and vigorous growth for brands can only be achieved by taking time to cultivate their reputation, gaining a deep understanding of their consumers, enriching their brand with profound significance, and adhering to their values while refining their products.

Part 7

Experience Optimization:

Boosting the Continuous Development of China's Aromatherapy Market from All Perspectives

China's aromatherapy market is still fledgling, with a rapidly changing market and a high degree of brand dispersion. As international high-end brands enter the market, the competition between niche fragrance and personal care brands, and among categories will intensify. The lifting of pandemic restrictions has led to an increase in consumer outings and a growing demand for relaxation and stress relief upon returning home, presenting new opportunities for the Chinese aromatherapy market.

The main questions explored in this chapter:

How is the development of the aromatherapy market?

- What are the characteristics of the development of the fragrance market?
- Are there any high-growth segments worth paying attention to?

Are aromatherapy consumers becoming more mature?

What other opportunities are there for the aromatherapy market?

?

Content of this chapter:

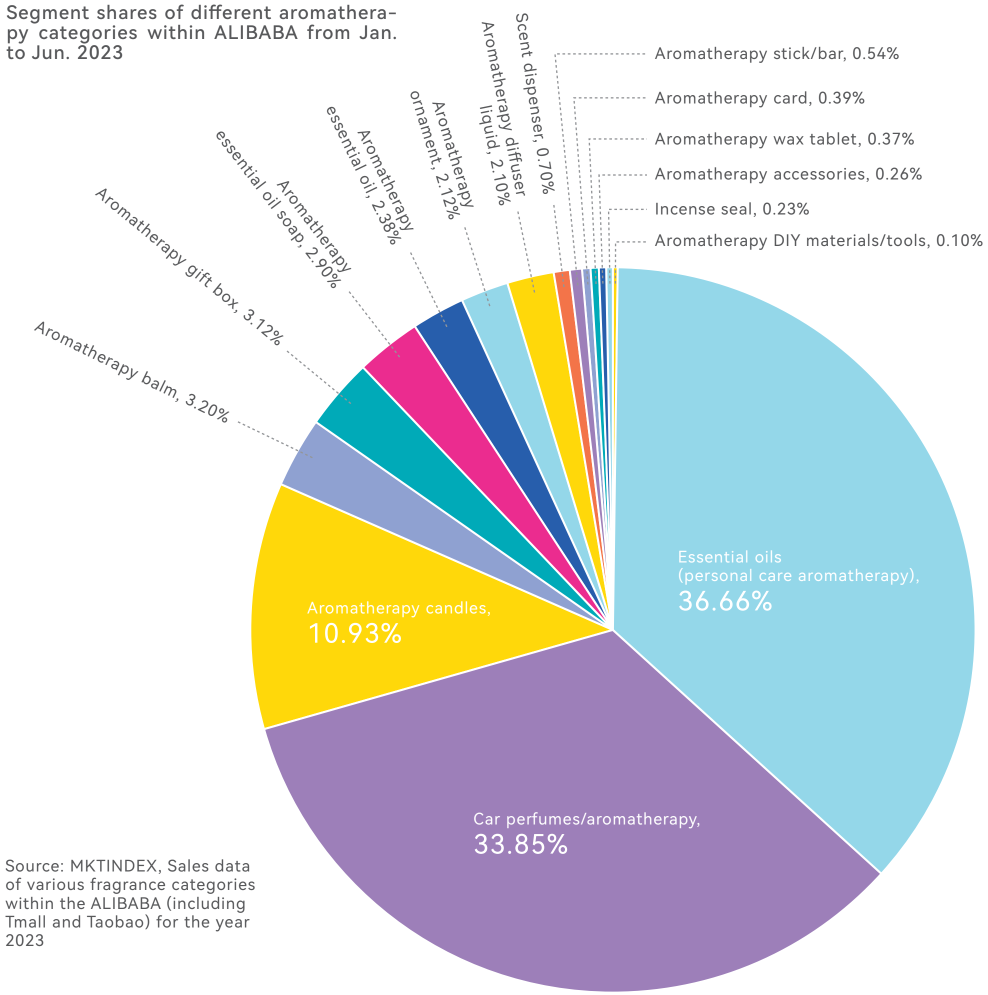
7.1

Rapid growth of segmented aromatherapy categories, high market dispersion, and fast brand changes

01.Segmented aromatherapy categories are growing rapidly,

ALIBABA are the main markets for aromatherapy sales. Essential oils, car perfumes, and scented candles still account for 80% of the market share. Many segmented aromatherapy categories are growing rapidly, such as aromatherapy pastes, incense seals, aromatherapy tools, aromatherapy cards, etc., which have all seen growth of over 50%.

Segment shares of different aromatherapy categories within ALIBABA from Jan. to Jun. 2023



Source: MKTINDEX, Sales data of various fragrance categories within the ALIBABA (including Tmall and Taobao) for the year 2023

On the ALIBABA platforms, the market share of the top10 products has not exceeded

5%

02.The aromatherapy market continues to exhibit the characteristics of “Highly dispersed brands and rapid changes”

The brand structure in the aromatherapy market features highly degree of dispersion and rapid changes. On the ALIBABA platforms, the market share of the top10 products has not exceeded 5%, and the top-ranked domestic brand, The Beast, only has a market share of 3.7%, while the remaining brands have less than 2%.

Among the TOP10 brands this year, domestic brands such as YINMI, Doterra, To Summer, All Kodo, and Fuyue are all new entrants to the list, with an annual growth rate of 50%-100%. German essential oil brand Oshadhi and international niche fragrance brand Diptyque both entered the TOP10 with market shares of 0.9% and 0.8%, respectively.

Market share of the top 10 Taobao aromatherapy brands from Jan. to Jun. 2023

Source: MKTINDEX, Sales data of aromatherapy brands within the ALIBABA (Tmall + Taobao) for H1 2023

7.2

Entry of various players intensifies category competition

01.Niche fragrance brands and personal care brands penetrating each other and expanding their categories.

a. Diptyque announced the release of new products in the La Droguerie collection, including dish soap, surface cleaners, and deodorizing candles with a basil scent, aiming to provide aromatherapy enthusiasts with a rich and multi-sensory experience.

b. In the latter part of 2022, To Summer, a high-end domestic brand, collaborated with The Laundress, a premium furniture brand owned by Unilever, to release a limited edition co-branded product called "Autumn Osmanthus" laundry detergent.

c. National personal care brand LOVEFUN and global fragrance giant Symrise jointly established the Aroma Aesthetics Research Institute, to deeply penetrate the domestic fragrance and personal care market by engraving the marketing tagline 'LOVEFUN' into consumers' minds."

02.Entry of International High-End Home Fragrance Brands Sparks Quality Competition.

Italian indoor aromatherapy brand Dr.Vranje, which inherits the tradition of Florence, has entered the Chinese market. Founded by olfactory fragrance guru Paolo Vranjes in 1983, Dr.Vranjes has become synonymous with high-end home fragrances worldwide. Dr.Vranjes' products have perfect properties, and the brand spent seven years finding the best length, width, and number of diffuser reeds to match the jars. They ultimately selected natural rattan sticks from Indonesia that are manually hand-picked and hand-cut.

7.3

Aromatherapy consumers are maturing

01.The Usage and Willingness to Consume Aromatherapy Products Continuing to Increase.

a. 43% of perfume users mention that they have increased the frequency of using aromatherapy products. In addition to the gradually mature market, the increase in outdoor scenarios after the lifting of COVID controls has further catalyzed the accelerated growth in the usage and willingness to consume beauty and personal care aromatherapy products. Consumers choose to use indoor aromatherapy products to create a comfortable and pleasant home environment; or after going out and returning home, they use aromatherapy products to relieve and relax (over 90% of consumers indicate that they use ambient fragrance products to eliminate fatigue, express/boost their mood).

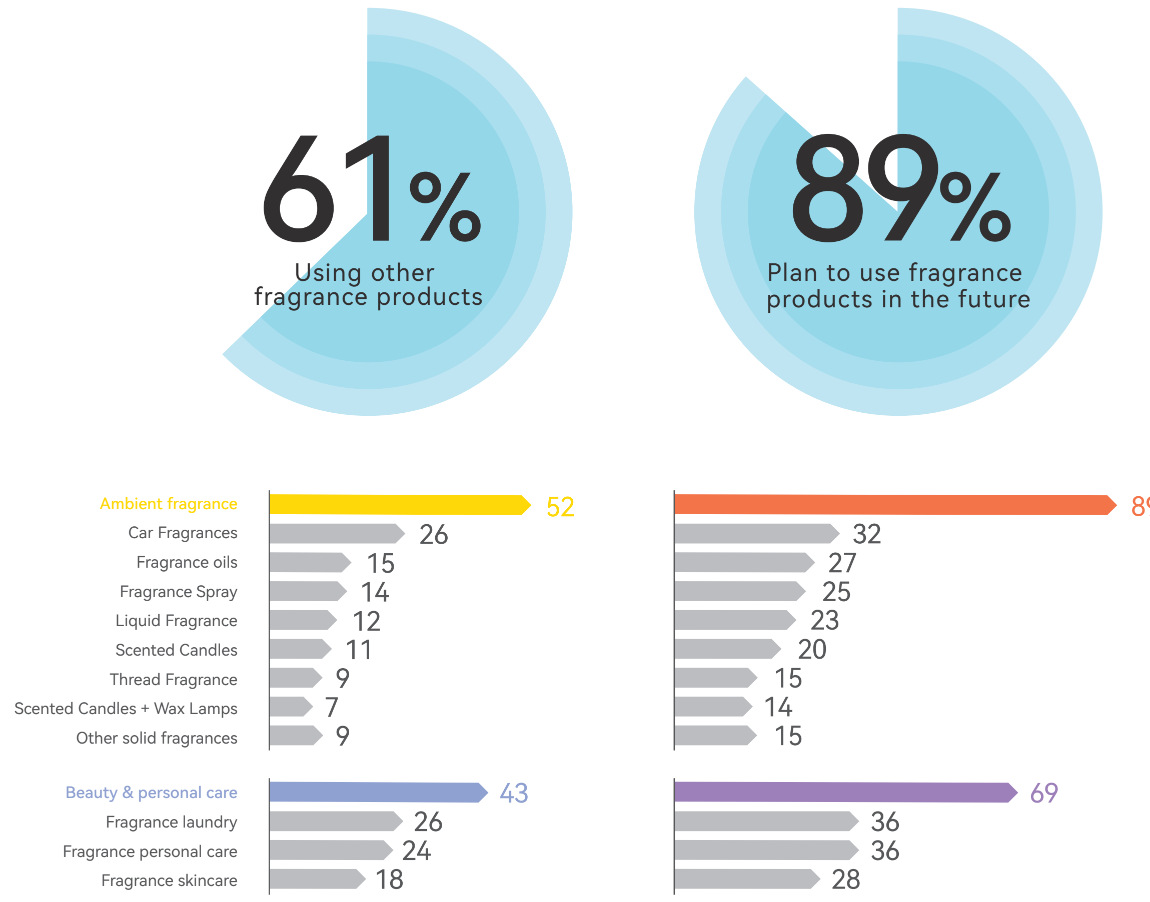
b. In terms of purchasing, consumers are consistently raising their spending on aromatherapy products. Research data shows that 35% of users have increased their consumption of aromatherapy products, especially young consumers in first-tier cities, with an average annual spending of 1,700 yuan.

02.Rich subcategories: aromatherapy essential oils, aromatherapy sprays, liquid fragrances, aromatherapy clothing care, and aromatherapy personal care are becoming new trends.

a. 60% of perfume users are using ambient fragrances or beauty and personal care products. Nearly 90% of consumers indicate that they will definitely/may use such products in the future. Rich subcategories: on average, individuals plan to use 3-4 types of aromatherapy products.

b. Given the fragmented nature of the ambient fragrance market, subcategories represent a promising avenue for growth. Despite the fact that half of ambient fragrance users currently employ car diffusers, only 32% of potential future users have plans to utilize them. Meanwhile, subcategories such as fragrance oils, sprays, and liquid fragrances have penetrated only 10-15% of the perfume market, with future usage intent projected to exceed 25%.

c. In the beauty and personal care product category, nearly 40% of users plan to use fragrance clothing and laundry care products (such as laundry detergents and scent beads) as well as fragrance personal care products (such as soaps, shower gels, and shampoos). While they are interested in the emotional pleasure that these products provide (nearly 90%), they also pay attention to their functional features. 25% of consumers are looking for fragrance products that offer improved cleaning (or antibacterial) capabilities. Consumers have high expectations for aromatherapy products with long-lasting scents.



Currently using an average of 2-3 products

Plan to use 3-4 products

Source: data from this consumer research

03.Perfume brands are generally well-received, but there are still certain brand barriers for them to enter the beauty and personal care fragrance market.

The notes, concentration and diffusing capability of aromatherapy products are the most important factors perfume users (currently using or planning to use fragrances) consider when making purchases, followed by the brand. Overall, consumers exhibit a high level of trust in perfume brands, with around 25% of users preferring to buy aromatherapy or beauty and personal care fragrance products from these brands. When purchasing ambient fragrances, nearly25% of consumers tend to choose professional brands that specialize in this category . Yet, when perfume brands venture into the market for beauty and personal care fragrances, they may encounter brand barriers: almost 50% of consumers prefer brands that specialize in cosmetics and personal care or home care products when purchasing beauty and personal care fragrances.

7.4

Future opportunities for fragrances: scene-based, functional, and experiential

01.Ambient fragrance: Provide More SKUs to Meet Different Space Scene Needs

Matching with home decor is an important consideration for consumers when choosing aromatherapy products, and many consumers prefer to use different scents in different areas of their homes. Brands can consider adapting to home scenes, enriching product lines and SKUs. For example, Dr. Vranjes offers a variety of ambient fragrance solutions, even in a single candle category, it offers 6 different sizes (XS to MAXI).

02.Beauty and Personal Care Fragrance: Highlighting Emotional Regulation Function & Collaborating with Industry Experts

As the ideal sensory mood lifter, aromas can evoke a range of emotions, like joy, confidence, sensuality, relaxation, and sleep aid. Given the growing focus on physical and mental wellness, functional emotional regulation is set to become a demand for consumers of personal care fragrance and aromatherapy products. For example, ADOLPH's new emotional fragrance collection "Xinyue Bottle" drives emotional health through a combination of "fragrance" and advanced scalp care. Firmenich conducted consumer research and neuroscience tests on the product, and awarded it the "Emotional Fragrance Consumer Research Certificate" and "Emotional Fragrance Nuclear Magnetic Resonance Certificate".

Consumers of beauty and personal care fragrance products have high expectations for the fragrance-related characteristics (notes, concentration, diffusion ability) and professional beauty and personal care/cleaning functions. Professional cosmetics and home care brands, in partnership with expert perfumers or fragrance brands, can tap into their respective expertise to develop innovative products, creating new growth prospects for these brands. For example, in 2022, Liby Group joined forces with French perfume master Calice Becker to launch the "Liby Master Fragrance" fragrance and washing care line.

03.Redefining Offline: Crafting Immersive Experiential Space

Aromatherapy brand stores are a good place for urbanites to heal from busy work and life. As pandemic restrictions ease and offline experiences become more prevalent, aromatherapy brands can craft spaces that offer all-encompassing sensory experiences by incorporating diversified visual, tactile, and olfactory stimulation. For example, Australian skincare brand Aesop approaches store design with a philosophy of "Respecting and independently designing each retail space, taking into account the customer, the context, and injecting a bit of pleasure into the conversation between the customer and the brand."

Inspiration and Reflection

After the COVID restrictions are lifted, the use and willingness to consume fragrance products continue to increase, and consumers' demands for fragrances are becoming more diversified and sophisticated. Ambient fragrance products such as fragrance essential oils, fragrance sprays, liquid fragrances, as well as beauty and personal care fragrance products such as fragrance clothing washing and fragrance personal care are expected to become new trends.

On the brand front, international fragrance brands and personal care brands are infiltrating each other's markets, while some high-end international home fragrance brands have entered the Chinese market, signalling a shift in China's aroma market from competition based on quantity to competition based on quality.

Overall, consumers trust fragrance brands, but these brands must still consider functional aspects such as cleansing and antibacterial properties when entering the beauty, personal care. By partnering with industry experts, fragrance brands can break down barriers and gain a competitive edge by addressing consumer needs in terms of usage scenarios, functional benefits, and immersive experiences.

8

Part 8

Mutual Growth:

Prospects of China’s Perfume Market

8.1

The fragrance market in China is seeing positive development, with the future of the "olfactory economy" remaining uncertain

01.With China's economy on a slow upswing, Focus Economics predicts that as the world's second-largest economy, China's GDP is projected to hit $19.5 trillion in 2023, exceeding 80% of the world's largest economy, the United States.

02.The fragrance market is also picking up, and the industry still has confidence in China’s fragrance market. The size of China’s fragrance market is expected to exceed 20 billion yuan in 2023, with great potential.

03.However, the vast majority of Chinese consumers are still at the entry level with limited knowledge of perfume. At the same time, as consumer awareness grows, their demands are becoming increasingly diverse. Therefore, single-dimensional improvement in areas such as product and marketing may not help brands achieve rapid growth. The future of the "olfactory economy" remains uncertain.

04.The fragrance industry has a shared responsibility to drive the dissemination of information on fragrance categories and continually monitor consumer needs, developing strategies that are tailored to the Chinese market.

In 2023

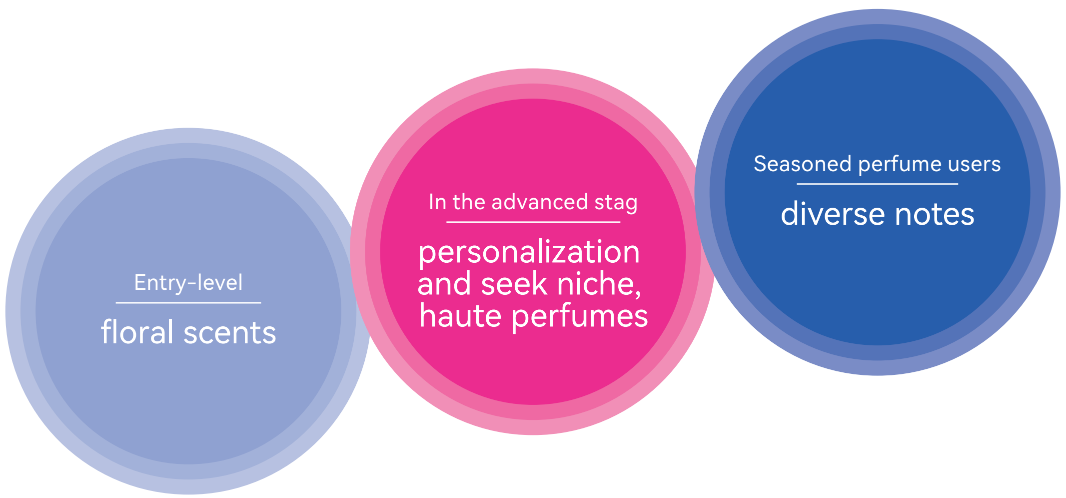
the size of China’s fragrance market is expected to

20 billion yuan

8.2

Chinese consumers continue to diversify, expressing varying degrees of "self-indulgence" and seeking omni-channel purchasing experiences

01.Most Chinese perfume consumers are still at the entry level, while some have upgraded their fragrance mentality and usage preferences as they become more knowledgeable about categories. Regardless of their level, consumers expect to satisfy their emotional needs and pursue a quality lifestyle through perfume. Consumers at different levels have varying expression: entry-level ones hope to display an elegant temperament in social occasions, so they prefer "non-intrusive" floral scents; those in the advanced stage are driven by personalization and seek niche, haute perfumes; while seasoned perfume users want to show their real selves through diverse notes. Brands can tailor their product lineups and communication strategies to specific consumer segments.

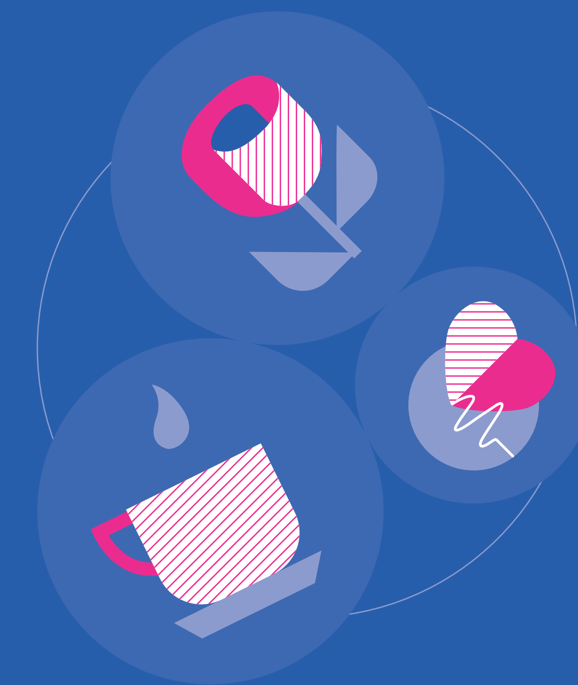


02.The multi-dimensional and multi-channel fragrance shopping experience is essential, as a single channel's influence on consumer behavior weakens. There are three types of fragrance shopping contexts that warrant attention. Consumers in the "comprehensive evaluation" context perceive brands from multiple touchpoints and personally try fragrances to comprehend the product. Therefore, embracing different platforms, attending to the comprehensiveness and consistency of information transmission, and providing more product trial opportunities are crucial. Consumers in the "word of mouth follow-up" context are easily influenced by other people's opinions in their purchasing decisions. Thus, a strong and easily spreadable selling point combined with highly interactive social media marketing can help drive rapid purchase decisions. In the "experience-oriented" fragrance shopping context, consumers value resonance between brands and their own values. In the process of interacting with consumers, conveying brand information and values and enhancing brand recognition can help drive long-term purchases.

8.3

As the competitive landscape remains relatively stable, brands must identify opportunities for self-improvement and engage in precise operations

01.International mainstream brands still dominate China's perfume market, thanks to their strong brand power and channels. With the rising prominence of Douyin in marketing, sales, and brand building in the fragrance market, Chinese fragrance brands are taking calculated risks to seize opportunities, resulting in double growth in sales and brand recognition, which is driving their market share expansion. Meanwhile, international niche fragrance brands continue to enter the Chinese market, making the overall landscape of China's perfume market stable but fiercely competitive. Therefore, both Chinese and international perfume brands need to enter a more sophisticated and stable stage of development.



02.The uniqueness and subtlety of perfumes lie in their close connection to perception and subjective experiences. By focusing on product refinement and creating a comprehensive impact across concepts, branding, scent, design, and trend-setting, brands can truly resonate with consumers and leave a lasting impression. To succeed, fragrance brands must have a deep understanding of Chinese consumers and create products that align with their tastes and preferences. With technological advancements, various tools and digital platforms can be utilized to support product R&D. Fragrance products centered around "lifestyle scent", "simple & green", and "mind-body health" will be noteworthy in 2023. Perfumes can help consumers to create a "sense of relaxation" that they desire, cultivating an elevated life style.

03.In terms of brand building, regardless of the brand type, emphasis should be placed on shaping and conveying brand culture. To avoid brand image aging and remain competitive in the face of international niche fragrances and Chinese fragrance brands, international mainstream fragrance brands must prioritize repositioning, refreshing their brand image, and creating a second growth curve. As Chinese perfume consumers gradually mature and seek greater "personalization", international niche fragrance brands have greater potential for development. Through precise positioning and personalized channel experiences, brands can fortify their image in consumers' perception. As Chinese consumers become more confident in the quality and innovation of local brands, Chinese fragrance brands must leverage their deep insight into the local culture and consumers, think beyond the norm, steadily enhance capabilities, and position the brand for long-term growth and development. In addition, when niche fragrance brands and personal care brands penetrate and expand into each other's domains, there are opportunities for ambient fragrances as well as beauty & personal care fragrances.

04.As fragrance purchases show a trend towards channel integration, the experiences at each touchpoint are increasingly important. Online channels, especially content production channels like "Douyin", are gaining gravity. In term of fragrance-related live streaming, brands must prioritize collaboration and synergy, leveraging content and influencers to create a strong bond between products and consumers. Offline channels, especially traditional high-end commercial spaces with high location value are still very important, but marketing tactics focused on "maximizing the experience" (such as pop-up stores, fragrance exhibitions, and fragrance appreciation salons) and more unique retail channels based on new lifestyles (such as lifestyle fashion/beauty retail stores, perfume and fragrance concept stores, and public cultural spaces) will help perfume brands create more enjoyable consumer experiences.

Special Acknowledgment

We would like to express our utmost appreciation to Eternal Group and other partners for their significant support in the production of this White Paper, and we are truly grateful for their contributions (the ranking is not indicative of importance):

Jean Madar
COB & CEO
of Inter Parfums Inc.

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VP of Business Development
for Fine Fragrances
in the Asia-Pacific region,
Symrise

Karim LISI

Lana Glazman
VP of Marketing Science Global
of dsm-firmenich

Lana

Chole Lam
Senior VP of Eternal

Chole

Zhaoran Meng
Founder of DOCUMENTS

Mr. Meng

VP of Fine Fragrance APAC,
dsm-firmenich

Olivier Viejo

Piliwuzei
Experienced Fragrance
Connoisseur & Leading
Perfume Streamer on Douyin

Piliwuzei

Viola Wang
COO of Eternal Group China

Viola

Data Clarification

【MKTINDEX Data clarification】

The sales data of perfume in e-commerce channels, as well as the rankings of perfume brands (including ALIBABA, JD, and Douyin), are sourced exclusively from MKTINDEX data. The data extraction for the perfume category followed the defined criteria as of July 2023.

【Business Case Explanation】

All the commercial cases and related data used in this report are compiled based on publicly available information.

【Citation Note】

The quotes from expert interviews used in this report are sourced from KANTAR expert interviews.

The consumer voice quotes used in this report are sourced from KANTAR perfume consumer symposium.

【KANTAR Consumer Data Explanation】

The 2022 consumer data provided by KANTAR in this report is based on a consumer survey conducted in 2022. The analyzed group consists of adults aged 18 to 45 years old, residing in first to third-tier cities, all of whom are existing perfume consumers who have made independent purchases of perfume products and have used them for a duration of at least one year.

【dsm-firmenich Data】

The dsm-firmenich data cited in this report originates from the 2022 research conducted by dsm-firmenich's Consumer Insights Center for High-end Fragrances.

Conclusion

Following the lift of pandemic-related restrictions, China's fragrance market is recovering and developing in sync with the overall revival of the Chinese economy.

Chinese consumers' knowledge of fragrances and their fragrance preferences are continuously evolving and diversifying. They crave fragrance information, seeking to satisfy their spiritual needs and express themselves through fragrances, and explore the "olfactory experience" through omni-channels both online and offline.

Despite the general stability of the fragrance market, the competition among brands is intense. To set themselves apart, fragrance brands must exhibit a heightened comprehension of Chinese consumers, creating fragrances that truly attract them and build strong connections with them through valuable experiences. China's fragrance market will continue to flourish through the tireless efforts of all industry stakeholders.