

Expanding Inoherb in China: No Love Without Herbology (A Case of Repositioning a Domestic Cosmetics Brand)

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Cosmetics is a very important and culturally recognized industry in China that stems from the country's five centuries of a vivid imperial past. China offers the third-largest market in the world in terms of sales, after the United States and Japan. Despite the recent economic slowdown in China, cosmetics demand is still significant, and though it is expected to decline, its annual growth will probably remain at a healthy 8% throughout at least 2017 ("Because it's no longer", 2014). The general success of the industry always triggers a question about its sustainability under the pressure of deepening market fragmentation and intensifying international and domestic competition. Industry shifts are taking place, sometimes unexpectedly. Shockingly, the Garnier line of the French behemoth l'Oréal and Revlon, an American giant, abruptly left the country after disappointing sales results and failed marketing campaigns. Meanwhile, domestic brands that capitalize on traditional Chinese herbology (TCH), such as Herborist, established 110 years ago, are rapidly expanding not only within the country but also in Europe, via the Sephora stores. In this context, our review aims to outline and redesign positioning strategies for a relatively new domestic TCH-inspired cosmetics brand – Inoherb – that has quickly gained popularity in the country's drugstores and other mass market outlets, and is now looking for smart ways to remain popular, gain new competitive advantages, and expand in strategic directions.

INTRODUCTION

The relative majority of global natural and organic personal care products – 35% – are currently sold in Asian countries, with demonstrated strong growth in the richest ones, especially Japan and Korea. According to a Klein Group study, *naturally inspired* products account for an overwhelming 79% of the total market share of natural personal care products, with an even greater part of them sold in China (97%) and an impressive number in Japan (58%) (Ferrara, 2013). Regional factors, such as the growth of disposable income among the educated population, the rapid westernization of the lifestyle, increased health and environmental concerns due to local environmental disasters, improved access to public health information, and new electronic distribution channels for cosmetics developed mainly in highly urbanized Asia have all played a role in the sector's expansion.

The definition of "natural cosmetics" is quite debatable and is not yet globally standardized. According to Ferrara (Ibid.), the definition, generally speaking, requires that a dominant proportion of the organic ingredients in the formula be in the "*truly natural*" category. Cosmetics with a major synthetic component can be assigned to the "*naturally inspired*" category. In some cases, comparison of the health outcomes and effectiveness of natural cosmetics is confusing. For example, synthetic polymers improve product performance, and no "natural" alternative is yet available. Such products as UV absorbers, hair coloring, and color cosmetics, for instance, usually deliver very poor results if they are formulated of

natural ingredients alone. But some researchers insist that a “truly natural cosmetic formula must be entirely based on vegetal and mineral materials and have no synthetic raw materials, silicone, paraffin or any mineral oil derivative” (Freitas, etc. 2012). This cosmetics category is called “*certified natural cosmetics*.”

China is a very special cosmetics market, both in Asia and worldwide. For many Chinese customers, regardless of their country’s long history and rich visual arts traditions, “old” often means “bad,” whereas “new” means advanced and blessed by the Western world. Because the cosmetics industry is an “old” one, many Chinese are not fond of its products. For instance, the Chinese perfume market is still tiny, and fragrances are used mainly as gifts rather than as personal indulgences. Also, during the “revolutionary years,” the cosmetics industry was practically nonexistent, so that generations of Chinese women grew up without learning from their mothers about cosmetics products and their applications. Unlike Japanese and Korean women, who practice the most sophisticated beauty routines in the world, many Chinese women view makeup as superficial, unnecessary, and potentially harmful to their skin. And here we are talking about the Chinese female population aged 16 to 45, which practically equals in number the entire populations of the United States and Japan. Even Chinese men are more open to using cosmetics products than Chinese women or European and American males. So, an enormous cosmetics sales potential exists, but it is not yet fully realized.

Things are constantly changing, however, even in China. Higher-income working women and wealthy housewives tend to buy traditional and expensive high-end luxury cosmetics in department stores, because in other venues luxury counterfeit and fake goods are too common. Popular market trends there involve significant female attention to skin-whitening and anti-aging products. Recently, the demand for hair care products has grown substantially.

In addition, the general population of educated and middle-income young people is expressly concerned about the environment and human rights. Their concerns about smog, polluted air and water, and food safety scandals (e.g., melamine-adulterated milk) make them more likely to use natural consumer products. Moderately priced natural cosmetics fit well into the lifestyle of a trendy majority of them. They are extremely interested in personal care products that are hypoallergenic and free of chemicals, artificial fragrances, and preservatives. Ancient medicinal practices, including herbal remedies, acupuncture, gymnastics, and massage are also coming back into fashion and the daily routine of China’s younger urban population. Young people widely embrace a new healthy lifestyle along with brands that support it.

One such brand is Inoherb, the subject of our analysis. Shanghai Inoherb Cosmetics Co., Ltd. was founded in 1999 by Ms. Feng Shuai. She was raised in a family that practiced traditional Chinese medicine, where she acquired the idea of using local herbs and herbal science in mass-manufactured cosmetics products. She introduced the Inoherb brand as a pioneering skincare solution that combines traditional Chinese herbology (TCH) with a modern commercial twist to address the needs of the health-conscious female beauty market. Inoherb products are developed and tested in cooperation with the Shanghai University of Traditional Chinese Medicine and manufactured locally in the Shanghai suburb of Baoshan. The products are designed to appeal to the new generation of educated young women, including college students.

Within a decade of its inception, the company managed to achieve a domestic reputation by becoming one of the top 10 in sales in the Chinese cosmetics industry. The Inoherb brand is considered the most famous brand in Shanghai. The company is the most popular employer in the Chinese light manufacturing sector, and it is proud of being one of only a few cosmetic brands that operate an online store. The company’s market share reached 2% in general cosmetics sales and 6.3% in sales of skincare products. It is one of the popular brands among young female customers and drugstore retailers, and is also a domestic e-commerce favorite. Inoherb successfully went public in Hong Kong in June 2012 (Inoherb official website).

Obviously, Inoherb has to date done a good job with its original product offerings, line differentiation, affordable pricing, distribution, market positioning, and digital promotion strategies. How

can Inoherb keep its existing customers loyal and attract many new ones? It is a real challenge. The brand, which was originally introduced as one focused on skincare products for the TCH segment of women between 20 and 35, needs to reach a much larger customer target group and introduce additional product lines, as well as employ innovative marketing strategies to enhance its brand identity and compete successfully in the crowded Chinese and global cosmetics marketplace.

The objective of this analysis is to better understand the natural market positioning and marketing strategies of Inoherb for sustaining and expanding its competitive advantages. The paper will outline further growth opportunities and suggest possible repositioning strategies for guaranteed business success. In short, it will answer this question: How can Inoherb, a relatively young cosmetics brand, survive, outperform foreign and domestic competition, and succeed in the global cosmetics industry?

LITERATURE REVIEW

There are a number of industry reports about the lucrative Chinese cosmetics market. Euromonitor International conducted one of the most comprehensive studies, “Beauty and Personal Care in China” (“Beauty and personal care”, 2012). Habitually, industry reports emphasize the appealing size of the Chinese market (1.3 billion potential customers), the prospects of its imminent growth in the personal care sector, the overwhelming appeal of many famous international brands, customers’ appreciation of Western-style advertising, and the impressive performance of foreign brands. The domestic Chinese brands are still very moderately publicized, and are in many cases portrayed as secondary in importance insofar as they do not follow what the “major players” – the “top five” multinationals, P&G, L’Oréal, Shiseido, Unilever, and Amway – are doing right.

In our opinion, differences in the size and specificity of the target markets and domesticated marketing mix respond to this concern. For instance, the important TCH sector includes predominantly local players that thrive by creating their own attractive market among educated young and health-conscious female customers. A few international companies, like Neutrogena, Jurlique, The Body Shop, Origins, Avène, FANCL, and L’Occitane, are carefully trying to capitalize on a similar “natural” positioning strategy but are reluctant to travel very far along this road, fearing that it might hurt the volume sales of their “regular” products.

RESEARCH METHODOLOGY

We would like to test an assumption that a clever “natural positioning” strategy has a very large sales potential among all domestic brands and is particularly important for the moderately priced Inoherb brand. Our hypothesis is that if Inoherb is effectively repositioned, it will overcome the most successful direct competitor, currently the well-established Herborist, in terms of market performance and will enjoy lucrative markets internationally, especially in the neighboring regions of Far Eastern Russia and Mongolia.

To accomplish the repositioning task for Inoherb, we applied Michael Porter’s five forces continuum (Porter, 1980) to the Chinese cosmetics industry to identify close competitors, new entrants, substitutes, suppliers, and buyers. We also conducted a series of observational studies and surveys in the Shanghai area, asking customers and retailers about the brands that are most appealing to them and their opinions of the TCH products. The case of Inoherb is an interesting challenge for Western cosmetics brands in terms of Inoherb’s domestic brand identity development and marketing mix adjustments, which are necessary, in our opinion, to compete more successfully.

Problem Identification

We continue to use Michael Porter’s five forces industry analysis continuum to identify major problems for Inoherb’s brand development and ability to compete successfully.

Competition

The cosmetics market in today's China is highly saturated and offers a great variety of brands and products for all the beauty needs of a sophisticated customer: hair products, skincare (mostly whitening and anti-aging preparations), color cosmetics, products for men and children/infants, oral care items, and fragrances. More than 3,000 companies are aggressively competing for buyers in the enormous Chinese marketplace. Some of them, such as P&G (the first foreign entrant in China, with the famous Olay brand, since 1989), the L'Oréal Group (since 1997), Estee Lauder Companies, Inc. (since 2002), Avon (since 1990), and Unilever (since 1998), are from Western countries. Combined, they have a total market share of about 50% (Petzinger, 2014). Others, like AmorePacific (since 1993) and the powerful Shiseido Co., Ltd. (since 1991), are from South Korea and Japan, respectively. In addition to Herborist and Inoherb, there are many other domestic brands, like Chinfie, Chcedo, CMM, Houdy, Caisy, and Longrich, that add to the intensity of the cosmetics rivalry (see report: "China's cosmetic market", 2012).

Most of the products from overseas are positioned as high-end and luxury goods, with retail prices that are hardly affordable for the average Chinese customer. The majority of the domestic cosmetics brands are cheaper than the foreign brands, with the exception of a very few premium products from China (e.g., some pricy Herborist products). As in many other industries, the origin of the product drives the price as well as the brand image and customer perception. Price positioning is very important in the cosmetics industry, but it is hardly the only positioning factor. Other elements of positioning strategy – image, prestige, effectiveness (product features), nutrition, general health effects, smart packaging – are emerging as effective ways to build a memorable and exciting brand identity and provide a positive customer experience.

For the past 14 years, the major domestic competitor of the established Western brands has been Shanghai Jahwa United Co., Ltd., with its 10 popular brands, including Herborist, Maxam, Giving, Soft Sense, Tea Beauty, and Liushen. These are positioned as skincare products based upon a combination of TCH and modern advanced biotechnology. Only the premium brand, Herborist, is distributed in more than 1,000 local upscale stores and spas. It is also available from the Sephora chain in several European countries, including the prestigious markets of France, Italy, Spain, and Poland (see: "Herborist growing global", 2014). The consumer interest in natural cosmetics in China, as we have noted, is recent and results from multiple well-publicized food safety scandals, polluted air, and contaminated drinking water in the major big cities, which have persuaded the educated public to treat itself better by using "natural" personal care products.

Unlike the premium Herborist, with prices ranging from a \$6 shampoo to a \$40 skin cream, Inoherb is priced lower and targets a younger, mostly female market, as a drugstore beauty brand infused with natural ingredients. It is positioned as "affordable herbal" cosmetics for young women, with prices between \$6 and \$8 per unit. It is very important to note that Inoherb has maintained a long-lasting cooperation with the Shanghai University of Traditional Chinese Medicine by creating a herbal skincare research center. By studying ancient Chinese beauty secrets and doing research on herbal skincare benefits for the past 10 years, modern biotechnology has paved the way for the company to develop a series of effective and safe herbal skincare products.

Inoherb offers a wide range of female beauty products. The brand's basic skincare lines include products for facial whitening, anti-wrinkle treatment, nourishing, firming, control of oily skin and acne, exfoliation, deep cleansing, hydration and moisturizing, revitalizing, and olive oil body care. The main natural active ingredients typically include witch hazel, pomegranate, cactus, lotus seed, and roseroot.

The company went even further along the TCH pathway to lead customers to adopt a healthy and active lifestyle. In June 2012, Inoherb launched its "Fu Shi Tong Yuan" campaign, which emphasized the close relationship between beauty, health, and food as important elements of Chinese culture. The offered box of unisex products (about \$11 per unit) included four facial masks for a complete skin treatment of whitening, nourishing, firming, and moisturizing. The offer received very positive customer reviews countrywide, in part because the Chinese outlook always tends to seek harmonious lifestyle solutions for mundane problems (see: "Cosmetics business", 2012).

Herborist remains the primary domestic competitor of Inoherb. The positioning strategy for both is very similar and creates some customer confusion, as both brands include mixes of natural ingredients based upon the TCH principles. The only difference is the price positioning strategy, with Herborist products being offered as more upscale. Obviously, we must identify product differences and benefits to find a way to reposition Inoherb as a brand that is younger in spirit, truly special, and more connected to the needs of younger people.

Threat of potential entrants

Every year, many new domestic companies enter the Chinese cosmetics industry, attracted by the low investment requirement, domestically available inputs, decent profit margins, and potentially unlimited customer demand. It does not take a great deal of expensive advertising to enter the market. Most Chinese buyers rely on other people's experiences to decide whether to try a product and to switch to another cosmetics brand. Even if some customers have been loyal to a particular brand for quite some time, it does not mean they will not try other brands, based upon the newness of a product and positive peer reviews.

In the case of Inoherb, its uniqueness relates to the traditional Chinese medicine foundation of its skincare products, which is not hard for many new entrants to replicate or copy. As stated above, Inoherb has at its disposal a special research and development group housed at the Shanghai University of Traditional Chinese Medicine. Extra credibility flows from this arrangement and adds value to the company's products, because many educated Chinese trust university researchers more than ordinary company employees, especially in view of the flood of counterfeited cosmetics available everywhere, which seriously affects the profits of legitimate businesses. With help from professionals, Inoherb is able to come up with many more special formulations for skin product lines, thus overcoming the R&D entry barrier encountered by many other companies that seek to enter the popular natural cosmetics market in China.

Threat of substitutes

There are plenty of available substitutes in China for manufactured cosmetics products. Instead of buying Inoherb products, a customer can simply elect to use homemade lotions, other, less-expensive products, or nothing at all.

Chinese women generally care about their appearance these days. Many of them realize that applying obscure synthetic cosmetic products may cause skin problems over time, and they tend to prefer natural formulations. This is why a "make-your-own-facial" approach is so widespread in Chinese households. For example, there are plenty of websites where experienced dermatologists recommend using milk mixed with lemon to make a facial solution that may help lighten skin tone. On other websites and in social media, women often discuss the ways to make their own skincare products from simple household ingredients, and they share recipes with each other. For instance, it is widely believed that using rice water after washing one's face can help to reduce blackheads. Even though many women may not always pay attention or follow these popular endorsements, some are attracted by the simplicity of the care, the low cost and wide availability of the ingredients, and the plain common sense of trying simple home remedies. Homemade skincare solutions may thus be considered direct substitutes for "officially distributed," advertised, and expensive skincare creams.

Another popular belief is the "baby lotion" phenomenon. Many mothers tell their daughters that using Johnson's Baby Lotion to nourish skin makes one look younger than others who do not apply it. The premise is that because the lotion is designed for babies, its formula contains no damaging chemicals or preservatives, and it is therefore safer than other available skin creams. Regardless how many young women are following this populist belief, baby lotion is a substitute for, and a threat to, actual skincare products, including the naturally positioned Inoherb brand.

And of course there is always the option to not apply any skincare products at all, to avoid possible long-term skin damage and save time and resources. This is the practice at this time for most men in China. They use soap or only water for their daily face-washing routine. Some women who do not take

much care of their skin behave the same way. Using nothing at all as a substitute for cosmetics is especially common in low-income urban households and in rural areas and small towns.

Bargaining power of buyers

With so many cosmetic brands to choose from, it seems that Chinese customers should have a great deal of market bargaining power. This is generally true, but the situation differs among brands.

Most Chinese women in big cities are quite impressed by the Western lifestyle and branded consumption that makes luxury cosmetics sales grow so fast. Though demand for these brands is high now, pent-up demand is even higher. Because these brands are positioned as high-end, luxury, and exclusive, many well-to-do women buy them at department stores, not only because the products are exceptional, but also because they can afford to treat themselves well and also let others know that they use expensive cosmetics products on a regular basis (conspicuous consumption). In addition, there are some women who care about their skin routine so much that they are willing to cut down on other purchases in order to buy expensive cosmetics. As a result, the galloping demand for the famous foreign cosmetics brands leaves customers very little bargaining power within the luxury cosmetics market segment.

Supply and demand functions the opposite way for the domestic brands of cosmetics in China. Most of these brands are significantly cheaper than the foreign equivalents. One of the main reasons for the lower prices is that the target customers cannot afford luxury products. Another reason is the lack of brand loyalty to the domestic products. When domestic brands raise prices, customers buy foreign cosmetics that they always regarded as having superior quality and high prestige. In this case, customers may have better bargaining power for the local products.

Inoherb is still a young volume brand that is looking for new opportunities to attract more customers. Price is an important positioning factor. Therefore, the fact that the bargaining power of its customers is rather strong should be carefully considered in its brand development process.

Bargaining power of suppliers

The main suppliers for cosmetic companies are the pharmaceutical/chemical industry and ingredient growers and processors/distributors. The major ingredients are simple and come from animal/fish/insect products, minerals, oils, wax, and alcohol. Different cosmetics brands may require different base products available from one or several suppliers. In the cosmetics industry, the supply of inputs does not ordinarily fluctuate. It has little to do with the weather or the season, and global outsourcing also helps to stabilize ingredient supply. Most companies enter into long-term contract agreements with their suppliers. The bargaining power of suppliers varies between brands by quality or selection, but there is no particular reason to believe that suppliers have significant bargaining power, with the exception, probably, of high-volume acquisitions.

Inoherb is different from most other cosmetic companies insofar as the main supplies for the company are natural herb extracts and their mixes. These are provided by farms that grow, harvest, and process herbs used in traditional Chinese medicine. The market for herbs in today's China is not large, as most people seek Western treatment approaches instead of embracing traditional Chinese medicine. So, the supply of herbs and extracts is sufficient, except for the few ingredients that are imported because of their local unavailability.

Our cosmetics industry analysis indicates that Inoherb has a problem in its rather vulnerable market positioning strategy, and that it will require a prolonged competitive battle with other brands, both local and international. The essence of its positioning is price competition with the similar domestic brand Herborist. Natural ingredients are a feature that evokes great interest, but seem to result in insufficient sales. Vertical competition from some of the global cosmetics brands is rather intense as well. The low capital investment required allows too many brands to enter the market simultaneously and compete for the same client base, young women. There are numerous popular substitutes, and the bargaining power of buyers is high, while suppliers are abundant. In a situation like this, other positioning elements, beyond

price, need to be more actively incorporated: unique image creation, emotion-driven positioning, prestige positioning, demographics and gender expansion, product line redevelopment and new product introduction, distribution adjustments, sharp packaging design, and promotion revamping. These elements are reviewed below.

Searching for Solutions

Marketing mix analysis can help us to define marketing strategies for sustaining and further expanding the brand in the Chinese market.

Product

The use of traditional Chinese herbology in the formulation of skincare products is the foundation of a growing “natural cosmetics” segment in the country. Though the concept itself is controversial owing to the potential toxicity of some ingredients, it has many fans who view herbal healing, acupuncture, massage, exercise, and dietary therapy as progressive and necessary lifestyle changes. Obviously, “natural cosmetics” could become an important component of the new, healthier lifestyle. As we have noted, Inoherb joined forces with the Shanghai University of Traditional Chinese Medicine, and the product developers are working under the guidance and supervision of the university’s researchers to offer cosmetics innovations within TCH studies. The company’s R&D team did such a good job that its members have published several research papers in academia addressing the effects of the herb extracts on sustaining and enhancing the beauty of skin.

In comparison with other skincare products, Inoherb products are positioned as safe, all natural, effective, well tested, and beneficial for the skin in the long run. To illustrate these properties, Inoherb launched several products that showcase specific herbs. For example, rhodiola rosea root fights oxidation, which causes skin to darken and age. The root is therefore used in creams that aim to whiten and firm the skin. This property helps the brand to stand out and offers customers something that is truly unique.

When Inoherb was founded, Ms. Shuai Feng focused only on developing facial skincare products for women. The company has taken the same approach until now. Meanwhile, other brands have rapidly expanded their product lines to include skincare for men, hair and body care products, oral care for everyone, and products for children and infants. An especially important and actively growing segment is anti-aging products, a development that reflects the universal aging of the population. Inoherb has nothing much to offer here, and has no choice but to develop a plan to compete for these opportunities. What are our thoughts about this?

Developing new products requires extensive studies, additional funds, and compliance with numerous and lengthy government testing regulations. Commercial outcomes can take a great deal of time and sometimes turn out to be unsatisfactory. Moreover, development distracts the company’s attention from its major product lines for women, which can cause customer confusion unless there is proper advertising. Advertising too is becoming more and more expensive. Fortunately for the company, Inoherb’s qualified researchers are paid less than their Western counterparts, ingredients are mostly the same for the new product lines, and many local industry regulations have recently been eased by the Chinese government.

Product diversification is a necessary condition of brand market sustainability and offers additional competitive advantages for Inoherb. The company should work harder on expanding its demographic and age targets. Men, teens, aging people, and the way these groups use cosmetics products now present many hitherto unused sales opportunities, which should not be relinquished to the direct competitors, such as Herborist.

Price

Pricing is a very important process. It relies upon many factors related to overall product positioning strategy in the marketplace, prices of competitors, purchasing power of customers, and corporate profit margin expectations.

The main target customers of Inoherb are females between the ages of 20 and 35. One of the pricing objectives is that prices should be affordable for young women not making fortunes, especially college

students. The current price strategy of Inoherb is to select a niche between the high and low prices of its competition. Luxury brands such as Clinique can afford to price a small jar of skin cream at up to 400 RMB (about \$65). Cheaper domestic brands usually price their cosmetics between 10 and 20 RMB (\$1.6–\$3.25) a unit. Inoherb's bottle of lotion costs on average around 60 RMB (\$9.75). An online purchase of the item costs a little less. This pricing strategy is a part of the effort to encourage young female customers to shop online more frequently.

Experience shows that this approach is not effective enough and does not help much to boost sales. In our surveys, only half of the respondents consider Inoherb's prices reasonable. The other half thinks that Inoherb products are overpriced. This finding means that even though an effort was made to make the products look more affordable, the level of brand recognition is not yet high enough to entirely support this simple pricing approach. The price structure should be more flexible, with high-low ends, and the price management should be more proactive in terms of the "promotional pricing" that is so popular in China now.

Distribution

In 2013, about 60% of Inoherb's sales revenue came from mass distribution outlets, particularly supermarkets and drugstores. On-line sales came next, with 30% of the company's revenue. The company-owned stores generated only 10% of its entire sales revenue. There is no exclusive distribution channel because the company has no luxury cosmetic products.

Unlike most of the cosmetics brands that sell mainly through department stores and specialty stores, usually located in large malls, Inoherb chose drugstores, supermarkets, and online stores as its major volume sales avenues in an effort to cater to young women who are not frequent mall customers. In supermarkets like Walmart, one can find standalone displays dedicated exclusively to Inoherb products, which enhance brand visibility and recognition. As for selling online, Inoherb has its own dedicated online store, and it also cooperates with other online retailers like Amazon.cn and Taobao.com through many links that are aimed to boost online sales volume. This mass distribution system is regarded as appropriate for the existing volume-oriented strategies. When the company decides to reach out to other demographics (males, teens, aging females), the priorities need to be readjusted in favor of selective distribution opportunities.

Males and teens feel comfortable buying cosmetics products in popular stores where clothing items and gadgets are available. The American store Gap and other youth retailers have responded to this fact for many years by providing better brand exposure and a complete customer experience. Inoherb should develop distribution alliances that would enable the company to place its products in shops, especially in proximity to colleges and universities or directly on campus, where young people buy everything they need. The company should treat cosmetics as a "cool accessory," like a belt, umbrella, or sunglasses, if it aims at more sales. Initially, the company can use a temporary corporate sales force or locally hired "brand ambassadors" to create a buzz, later use a branded display, and possibly support its effort with endorsements by young celebrities. Packaging should be redeveloped in terms of better styling and more sophisticated branding.

It is common knowledge that company-owned stores are expensive. Inoherb is rather conservative when it comes to expanding them. The corporate managers evaluate beforehand whether opening a new store will bring significant profit to the company, as the process of properly selecting a location, training staff, and setting up the store takes a long time and requires resources. We do not recommend expansion of the company-owned stores as a necessary measure, but existing locations could be used more effectively to boost brand awareness by hosting a variety of educational gatherings, community events, and PR opportunities in addition to ordinary sales. More likely, it would mean turning company-owned stores into lifestyle youth clubs rather than merely using them as retail venues.

Boutiques, spas, and hair salons are often underused opportunities to distribute more upscale Inoherb products. These are places where one can find many women who are really interested in skin care, learning about the products, and treatments. Doctors, beauticians, and company experts can provide

professional consultations with respect to the product features, benefits, and applications. Specially designed products, price markups, and brand information provided by Inoherb will interest owners in carrying the products, especially if they are not available anywhere else.

There are also numerous international opportunities to distribute Inoherb products. Within the region, we can name many underserved markets in neighboring Far Eastern Russia and Mongolia. Both are located in close proximity to China and have many similarities with regard to consumer behavior features and market needs. For instance, the Japanese company Shiseido successfully entered Ulaanbaatar, the capital of Mongolia, in May 2010, and has doubled sales by now (9). Shiseido products are a big hit in the major Russian Far Eastern cities of Yuzhno-Sakhalinsk, Vladivostok, Petropavlovsk-Kamchatsky, and Khabarovsk, and the market there is not even close to saturation. Inoherb should be there now, assuming that moderately priced and good quality cosmetics are not currently available in the region.

Promotion

When Inoherb chose its preferred distribution channels, the company developed the following promotion approaches, which it still uses.

Promotion Strategy for Supermarkets and Drugstores

Originally Inoherb distributed its products through selected Wal-Mart stores. There were designated point-of-purchase displays of the products, and professional salespeople stood near the cosmetics section to introduce Inoherb to shoppers walking by and to give away product samples. In two or three months it became obvious that this effort was very successful. Inoherb rapidly became available at all 400 Wal-Mart stores spread across 171 cities and 21 provinces of China (Walmart China official website). Later, Inoherb expanded distribution to other volume operators such as Watsons Personal Care Stores (d.b.a. Watsons), where the company maintains its own display, adorned with the same green color as its product packages. Our survey confirmed that when a customer walks toward the cosmetic aisle at Watsons, it is hard not to notice the Inoherb display and possibly make an impulse purchase on the spot.

Promotion Strategy for Internet Sales

Corporate website (Inoherb official website) and social media outlets are the most important avenues for increasing brand awareness. The company usually asks customers who received free samples in supermarkets and drugstores to write comments on the website's blog. Inoherb then sends out additional free samples and brochures to those who commented. An example is w1.cn, the largest social network for women, designed to allow them to post and share their experiences with respect to different cosmetic brands. Inoherb cooperated with w1.cn and mailed samples to users of the website, asking them to post comments. As a result, the Inoherb brand became better known via the site and really popular with young women.

Inoherb was one of the first brands to open its own online store, at www.inoherb.com. Because the target customers are young women who shop online quite often, Inoherb provided a platform for them to become more familiar with detailed product information and to compare product prices. As the online price for an item is cheaper than the supermarket one, many women quickly learned how to buy cosmetics electronically.

Word-of-mouth (WOM) / Viral Marketing

Inoherb rarely develops expensive campaigns to show its products on television or via the internet. Instead, it uses the power of word-of-mouth recommendations. One reason for this action is that the company is confident that once customers try products, they will buy them later. Another explanation is that when women are shopping for cosmetics, they want to learn what other people who have used the product think of it, either by talking to friends via chats and social networks such as renren.com (renren social media site) or by scrolling through blog comments. So, in accordance with the logic of group mentality, when customers see that many people have posted positive reviews, they are more likely to try the product. As indicated by our survey, most respondents are familiar with the product and have used

Inoherb before, and about 60% of the respondents would recommend it to a friend.

In our opinion, in all promotional efforts Inoherb should emphasize the benefits and effectiveness of a product, following the logic of the TCH. Customer savings are also a strong point of price positioning. The Chinese are very sensitive to, and quite spoiled by, numerous promotions from all vendors. Promotions are essential for the younger and less-affluent crowd. The brand name has already achieved a healthy level of customer recognition, and expanding the brand through the online and WOM/viral opportunities is the right approach. The missing component here is the customer relationship with Inoherb. Constantly working on brand uniqueness and appeal might result in stronger customer loyalty. Expanding the target demographics and introducing new product classes to obtain more positioning tools would be the next necessary step in Inoherb's successful growth.

CONCLUSION

The major problems that Inoherb faces today are the sustainability of its success and future expansion. To maintain its existing customers and attract new ones, the company should adopt a brand repositioning strategy. We are confident that Inoherb will be more prosperous if it takes the following steps:

1. Continues to focus on facial skincare products for young women but also starts to develop skincare products for men and older women.
2. Diversifies pricing decisions, introduces a more active price management strategy, and departs from obvious brand positioning based on price alone.
3. Develops more "hip" and memorable advertising messages to run continuously on domestic social media networks.
4. Has experts start dialog and answer customer questions on Inoherb's corporate website, and develops closer and more emotionally driven relationships with customers.
5. Intensifies existing and discovers alternative distribution avenues, such as clothing and accessory stores, especially in the proximity of colleges and universities.
6. Designs better packaging options outside the traditional TCH "green" look, to make them stand out and be perceived by youth as "cool" and "worth the money."
7. Considers the option of rapid international expansion, via a distribution alliance with foreign vendors, into some neighboring countries such as Far Eastern Russia and Mongolia.

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