

MORE THAN SKIN DEEP



WATSONS IN CHINA: Shanghai Beijing Guangdong Chongqing Shenzhen

Why Watsons is the store of choice for beauty products in China

By Mark Redvers



RETAILERS TRYING TO CRACK the notoriously difficult China market look with envy at the way Watsons make it seem so effortlessly simple: the company has more than 450 stores spread throughout the vast nation, a figure that is continuing to rise rapidly.

Watsons has long had an entrenched presence in the major first and second tier cities of China and is now expanding into the third and even fourth tier, ready to take advantage of the increased spending power and brand awareness among consumers in the less developed provinces.

Despite the phenomenal expansion figures of the past few years, Watsons is no overnight success story. Experience, based on some 20 years of trading in the country, has played a major part in knowing just what Chinese customers want and need; like other major international retailers, there were difficulties along the way, inevitable in a nation that had no culture of consumerism until two decades ago.

In fact it is only the last decade that has witnessed a major surge in retail consumption, with virtually all the major European and American brands sizing up China as a potential market for their clothes, cars, wines, perfumes, beers and bags. Many is the retailer who has been seduced by the figure of 1.3 billion potential consumers but failed to do enough detailed, on-the-ground research about levels of disposable income.

Exhaustive research, focused customer service and the right range of quality products are the ingredients that go into the Watsons recipe for success. Its clientele consists largely of affluent young women with plenty of money to spend on make-up, skin care and perfume. They are a discerning breed, totally familiar with the big-name brands of the western world and also enthusiastic users of Watsons own-label products.

“They might not be able to afford a Mercedes-Benz or an expensive overseas vacation, but they can do something to make themselves look better by spending money on quality products that are luxurious,” said Christian Nothhaft, Managing Director of Watsons China. “Our research has shown that using these products makes them feel good about themselves; they are able to indulge, but at the same time Watsons is seen as having a good price perception image. A lot of it comes down to being in the business a long time in this country. We have the experience of how to get things to work in China and have a track record of learning about China.

“We have introduced many brands into China and people have a relationship with us. Our brand is hot in China. We have 2.5 million customers per week – twice the amount of customers per store as our other outlets in Asia. They don’t spend as much, but that is still quite an impressive figure. In fact, by the end of this year we anticipate it will be up to 3.1 million a week.”

Watsons now has stores in 69 cities in China. The company’s strategy is to look well ahead and decide when the less-developed cities are likely to be ready for a Watsons store; as soon as that moment comes, advance-planning staff target a prime retail spot and set up shop.

The strategy has worked to great effect so far. The vast array of international beauty brands makes Watsons a place that young trendy women instantly recognise as somewhere they want to browse – and spend.

“Having previously lived in Hong Kong for seven years, I view Watsons as a store that I can count on, a place where I can be sure of getting quality products, whereas other pharmacies in China are not consistent,” explained Chris Baker, General Manager in China for the Eight Partnership, a company that advises retailers on marketing in China. “The service and product experience at Watsons in Mainland China is very closely modelled on the one in

Hong Kong and is a consistent experience.

“Watsons have made the most of their time in China building deeply-entrenched relationships with its customers. Watsons were early to the market and have timed entry to the right places at the right times. They have a very clear, tested retail concept. Most importantly, they are exceptional both in terms of city selection and the right locations in each city.”

Another major string to the company’s retail bow is the Watsons membership club, which will have four million members by year end, most of them under 35. As well as accumulating loyalty points, members are alerted to special offers and are invited to try new products arriving in stores.

Customer service is also very important, whether it is well-trained and friendly staff, or customer-friendly store layouts that allow easy product identification. Each of the stores is carefully designed to appeal to young female shoppers, starting with the instantly-recognisable pale turquoise logo. Inside, the style is deliberately feminine, using subtly light colours that will appeal to young, beauty-conscious women.

The layout of the aisles, shelves, islands and tills is also carefully planned to match local tastes and shopping patterns. Skin care products, for example, are placed right at the front of the store; health products are arranged so customers can have a closer look at the packaging; cosmetics are sold from well-lit counters, so that different colours stand out.



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Clockwise from above: Watsons now has stores in 69 cities in China; men are starting to splash out on grooming products; well-trained staff are on hand to help customers; the layout of each store is planned to match local tastes.

Customers looking for a certain kind of eye shadow, colour of lipstick or type of shampoo can call on the well-trained Watsons employees for advice. In fact, all staff are fully in tune with the likely needs and wants of twenty-something women, the core Watsons demographic.

And it’s not just the women who are prepared to spend money to look and feel good. The men of China, generally far less fashion conscious than the fairer sex, are starting to splash out on grooming products, a new and growing phenomenon.

Elsewhere, men who spend heavily on deodorant, facial creams, cologne and hair gel are known as metrosexuals; the poster-boy figure for the movement is superstar footballer David Beckham. The launch of Man code, an own-brand skin care range by Watsons, has shown that there is a whole metrosexual community of men in China, ready and willing to splurge on keeping their skin in good shape.

“We think the men’s growth rate is about 40 per cent a year,”

Sichuan

Shaanxi

Hubei

Gansu

Hunan

Hebei

Henan

Anhui

said Mr Nothhaft. “Men are persuaded to use the products by their wives or girlfriends. The recent launch of Man Code has been phenomenal, one of our biggest product launches.”

The China outlook is so bright, despite a worldwide recession, that this year will see the opening of a total of 150 new stores, including cities such as Hohhot, the capital of Inner Mongolia. Even in cities where Watsons does not yet have a presence, people are familiar with the name through the Internet. Beauty-related blogs and forums on sites such as Sina and Sohu discussing the best products and services have the potential to reach tens of millions of people.

Young women in the larger cities began patronising Watsons long before blogging became a popular pastime. Watsons first opened in the capital city of Beijing some 20 years ago, growing gradually at first, with subsequent outlets opening in the coastal cities of Shanghai and Guangzhou.

The early part of this century saw rapid expansion, with the 100th store opening in 2005, the 200th in 2006 and the 300th in 2007. There are currently more than 450 stores which cover




some 60 per cent of the cities in China.

The Watsons formula of offering quality products, great display and efficient service sounds simple. But if it was just a case of transplanting a western-style business model into China, every brand would succeed and that is patently not the case.

“Looking at it from the outside, it sounds like a no brainer to sell products in a population of 1.3 billion but it is not that simple,” says Mr Nothhaft “You need to have the right timing and be in the right place with, of course, the right people and to stay ahead of the competition.

“You have to make sure that you arrive in a city with the right location and premises at the right time, in other words

not too soon, just when that city’s population has the spending power to be able to afford to shop at Watsons.

“You have to have a way of predicting when the growth will come. We put a lot of time and effort into planning. Two years from now we want to be able to say that that particular city is ready for a Watsons store. We are now looking at second, third and even fourth tier cities up as far as the Russian border.” 

LEARNING THE ROPES

EXCELLENT SERVICE has helped Watsons build up an impressive following in China – close to three million customers a week patronise the country’s 450 stores. The company is constantly looking at ways to upgrade and fine tune service levels to meet the increasingly high expectations of discerning shoppers.

To that end, the Retail Academy was recently launched in nine Asian nations, including China, to help train staff to even higher levels. The in-store programme is for all staff – from the most junior employees right through to the most senior and experienced – and has two levels, with

additional modules for beauty and healthcare advisors.

Subjects covered in the training sessions are customer service, selling skills, product knowledge and store operations. As well as helping customers, the Retail Academy also allows employees to develop their skills and increase their job satisfaction. This, in turn, helps to reduce staff turnover and grow the business.

In China, the Retail Academy scheme was launched initially in the southern provinces, close to Watsons home base of Hong Kong, a city renowned for its great service, and will expand to other parts of the nation.

