

Consumer Packaged Goods Practice

How a cosmetics giant reaches Chinese consumers: An interview with Shiseido CEO Masahiko Uotani

China has become a critical growth engine for this global cosmetics powerhouse.



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When Masahiko Uotani was chosen to help rescue iconic Japanese cosmetics brand Shiseido in 2014, he was the first outsider to run the company in its 147-year history. He quickly made his commitment clear, pledging to ensure Shiseido sustained its position as a great global company for decades to come.

Tasked with revitalizing a traditional brand that was struggling to adapt to rapid developments in the way young people in particular sourced and bought their skincare and makeup products, Uotani set about overhauling a rigid hierarchical structure that had impaired the company's ability to stay in touch with consumers.

Personifying a new attitude of openness to ideas, he visited more than 10,000 of his own employees in his first year in the job, on a global tour of the company's operations.

His subsequent corporate assessment resulted in a six-year transformation plan, known as VISION 2020, which four years on is driving remarkable success. In its last earnings call, reporting for the first nine months of 2018, Shiseido said revenue rose 10 percent year-over-year to 805.8 billion yen, with sales improving across all its segments, driven by upbeat performance in Japan, China, and duty-free outlets.

Masahiko Uotani's background in global marketing continues to help Shiseido reinforce its brand identity in the eyes of consumers as an innovation-driven cosmetics powerhouse, a position epitomized by his decision to establish new R&D centers, first in Tokyo, and more recently in Beijing and Shanghai.

Fresh from a recent trip to China, he sat down with McKinsey senior partner Daniel Zipser to discuss how Chinese consumers have become the engine of Shiseido's growth, how the company has adapted its digital and wider marketing to engage Chinese at home and abroad, and an exciting new strategic partnership with Chinese tech titan Alibaba.

Daniel Zipser: Shiseido is 147 years old and has expanded from its origins in Japan into a global company, with more than half your business now coming from outside Japan. Since you've been appointed CEO and president, how do you see the outlook for your business outside of Japan?

Masahiko Uotani: This is by definition a traditional Japanese company, having been in the business for 147 years. Since I joined in 2014, I've considered myself to have two missions. One is to make a traditional company a truly global company, and the second is to help Shiseido survive for another 100 years.

My definition of a global company is not only about sales—specifically 60 percent already being ex-Japan—but more importantly, I emphasize diversity of people, organization, and ways of thinking.

We're moving towards becoming a global company but we're not quite there yet. I'm trying to change the mind-set and behavior, so our people reflect diversity, because I believe diversity will be a source of innovation that will drive future company growth. We've been changing a lot, but we're still in the middle of the transformation.

Daniel Zipser: What role does the Chinese consumer play for Shiseido?

Masahiko Uotani: It's very important. Our sales in China are really growing, up more than 30 percent this year, and China is our number two market now, bigger even than the US. Also, Chinese consumers are traveling. More than 130 million people went out of China last year, and 10 million of them came to Japan. Chinese consumers love to buy cosmetics and visit travel retail businesses, as well as duty-free shops at airports; they do a lot of shopping.

Actually more than 60 percent of our incremental growth in the last three years came as a result of Chinese consumers. But more than that, China is very close to Japan, it's a part of Asia. We share a lot of values, for example, as Asians, our skin



Masahiko Uotani

Vital statistics

Born June 1954 in Kansai region, Japan

Family

Married, with two daughters

Education

MBA from Columbia University, Bachelor's degree in English from Doshisha University, Kyoto.

Career highlights

Served in several senior management positions at Kraft Japan, Citibank, and Lion Corporation.

Restructured Coca-Cola Japan and launched a new supply chain management unit. Oversaw the launch of popular new drink Qoo.

Founded BrandVision, a company to assist Japanese companies in going global, and was instrumental in helping NTT Docomo revamp its marketing strategy.

Galvanized Shiseido's performance after being appointed CEO in 2014, launching the VISION 2020 program to increase sales to more than \$9 billion by 2020. Led the acquisition of Gurwitch Products as part of a commitment to globalizing the brand.

is quite similar. If a brand works in Japan, we can assume it's going to be loved by Chinese consumers as well. Chinese people are critical for our business to succeed.

Daniel Zipser: You make an interesting point, it's not only about the Chinese consumer in China but also the Chinese consumer traveling outside of China. You mentioned more than 100 million Chinese people are traveling overseas. What can beauty companies do to attract Chinese consumers, not just in their home market, but while they're traveling?

Masahiko Uotani: Traveling these days is not just about visiting another country for sightseeing. A lot of people are looking for experiences. Many Chinese consumers come to Japan, initially just to go and see Mount Fuji, for example—just

sightseeing. They're coming to Ginza [in Tokyo] for shopping. These days we also see a lot of Chinese coming to Japan to visit far flung places I've never even visited myself.

They're looking for heritage and historical spots, visiting for experiences like Japanese tea ceremonies and Ikebana—the flower arranging ceremony. They're really attracted to cultural activities. It's good to see that mutual understanding blossom as both nations continue to rise. China and Japan should become friends, in my opinion.

When Chinese consumers come to Japan, we should be creating an environment for them to maximize their experience, while talking and connecting to them—creating a foundation for business as well.

Then, we can track whether they continue to use our brands after they try our products in Japan. Some 60 percent of Chinese consumers who buy our cosmetics brands in Japan keep using the same brand in China. There's no boundary anymore, opening up new business opportunities for cross-border marketing.

Daniel Zipser: Are there challenges marketing to consumers who are exposed to new brands for the first time outside their home market? What does it mean for global brand positioning?

Masahiko Uotani: When consumers first experience our brands, obviously we have to demonstrate and really convince them that our brands are consistently high quality, that they're strong products worth trying.

As China's economy continues to grow, these returning consumers will be exposed more widely to brand experiences, so we'll really have to double down on communicating why our products are superior, not necessarily just "Hey, come to see us and try it." We have to really deliver an in-depth message about what the ingredients are, why it works so well, and deliver what they expect from skincare and makeup. Our communication is becoming much deeper, which requires us to do much better marketing to get those consumers connected and engaged. Our marketing is changing to reflect what Chinese consumers are looking for vis-à-vis what the Japanese consumer is looking for—it's becoming more diverse.

Daniel Zipser: And there's no country in the world more digital than China.

Masahiko Uotani: Oh yes. I got in a taxi in Shanghai last week, and they don't accept any cash anymore. In Japan they still prefer cash.

Daniel Zipser: It's also the home of many of the large ecosystem players, like Alibaba and Tencent, which are among the largest tech companies in the world. What does that mean for the beauty industry?

Masahiko Uotani: It means a lot. It's a great opportunity to leverage their e-commerce business of course. We're talking to Alibaba about having a collaborative strategic partnership, where we can make use of all the consumer data they're collecting around beauty products, events, and content.

People are buying our brands from their ecommerce sites, and telling them about their impressions and feedback. So we can get a lot of consumer data and perform segmentation analysis. Then we can offer them, for example, personalized products. We're expanding our R&D in Shanghai so that we can quickly react to what we learn by working with them, and come up with new products and promotions, and then test them straight away. Their platform is ideal for testing new, innovative ideas.

Under the traditional retail model, you can't easily test your products. You have to produce a lot, put them on the shelves, do advertising, and see how consumers are coming to the stores. It costs a lot of money. But by working with them we can come up with a lot of ideas together and test them and keep doing it, or quit if it doesn't work.

It's more of a collaboration, where collaboration means brainstorming—rolling up our sleeves and working together. When I first met Jack Ma in Hangzhou, at the end of the meeting he said, "That's great that we're going to be working together, but let's make sure we work..." The Japanese concept is called "PDCA"—Plan, Do, Check, and Action. That means let's try it out, look at all the data, see if it's working or not, and then review and come up with revised actions. And then keep going. That's the way we work with Alibaba.

I'm very excited about this opportunity. We recently created a dedicated team of 20 people who will be relocating to Hangzhou.

Daniel Zipser: Sounds like a great example of China and Japan collaborating, and a great thing for the beauty industry as well as China's technology companies.

Masahiko Uotani: And this model is not just going to apply in China. We're going to take it out of China because we're expanding to Asia, India, the Middle East, and Europe.

Daniel Zipser: Ten years from now, getting out my crystal ball, how do you see the role of China, and the Chinese consumer developing for the beauty industry?

Masahiko Uotani: In the last 40 years, after the country was opened up, first, China became the factory of the world. Then it evolved into the market of the world. That's where they are now. On top of

that, I'm foreseeing they're going to become a real source of innovation.

I met a lot of entrepreneurs and start-up companies in China. In Hangzhou, for example, they're becoming like Silicon Valley. We are setting up our business innovation group in Shanghai, reporting to me—I have an office there. This new team will be talking to people and start-ups with innovative ideas. Chinese medicine is a great background for us to think about new products. There are so many values we can find and leverage out of China for future innovations.

Masahiko Uotani is the CEO of Shiseido. This interview was conducted by **Daniel Zipser**, a senior partner in McKinsey's Shenzhen office.

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