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Plan to Increase the Sales of Lily & Beauty

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Master in Applied Management

Supervisor:

Professor Doctor Sofia Lopes Portela, Assistant Professor, ISCTE-IUL

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BUSINESS
SCHOOL

Department of Marketing, Operations and General Management

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Abstract

Lily & Beauty is an early established Alibaba based cosmetics e-commerce retail service provider, benefiting from the traffic dividend of the Alibaba based e-commerce platform and developing rapidly. However, as the number of users of traditional e-commerce platforms tends to saturation and the diversion effect of emerging e-commerce platforms, the cost of online customer acquisition continues to rise, and the operating cost pressure on the company has sharply increased. In addition, changes in the e-commerce environment and consumer preferences also affect the sales channel strategy of cosmetics brands. In the face of these uncertain factors, the hidden dangers of the company's current single operating channel are gradually exposed, and growth is slowing down. The objective of this project is to design a plan to increase the sales of Lily & Beauty.

To expand Lily & Beauty to multi-channel to improve the sales, a series of solution actions were outlined after the analysis of the external situation, internal situation, PESTLE and SWOT analysis. By implementing this solution of multi-channel strategy, Lily & Beauty is expected to achieve enhancing brand awareness, boosting sales, expanding target customer groups, enhancing brand loyalty, brand image and the decision making supported on data.

Keywords: Multi-channel, Marketing, E-commerce

JEL Classification: M31

Resumo

Lily & Beauty é uma empresa fornecedora de serviços de retalho de cosméticos baseada no Alibaba, beneficiando, do tráfego desta plataforma de comércio eletrónico e desenvolvendo-se rapidamente. No entanto, como o número de utilizadores das plataformas tradicionais de comércio eletrónico tende a saturar e o efeito de desvio das plataformas emergentes de comércio eletrónico, o custo da aquisição de clientes on-line continua a aumentar, e a pressão sobre os custos operacionais da empresa aumentou drasticamente. Além disso, mudanças no ambiente de comércio eletrónico e preferências dos consumidores também afetam a estratégia de canal de vendas das marcas de cosméticos. Diante desses fatores incertos, os perigos ocultos do atual canal operacional único da empresa são gradualmente expostos, e o crescimento está diminuindo. O objetivo deste projeto é desenvolver um plano para aumentar as vendas da Lily & Beauty.

Para expandir a Lily & Beauty para o multicanal, um conjunto de ações foram delineadas após a análise da situação externa, situação interna e análise SWOT. Ao implementar esta solução de estratégia multicanal, espera-se que a Lily & Beauty consiga aumentar a notoriedade da marca, impulsionar as vendas, expandir os grupos-alvo de clientes, aumentar a fidelidade à marca, imagem da marca e a tomada de decisões baseadas em dados.

Palavras-chave: Multi-canal, Marketing, E-commerce

JEL Classification: M31

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Glossary

KOL - Key Opinion Leader

UGC - User Generated Content

1. Introduction

Shanghai Lily & Beauty Cosmetics Co., Ltd. (referred to as Lily & Beauty) was established in 2010, with its headquarters located in Shanghai. With the booming development of cosmetics e-commerce, online agency operations have entered the stage of quantity and quality transformation.

As the number of users of traditional e-commerce platforms tends to saturation and the diversion effect of emerging e-commerce platforms, the cost of online customer acquisition continues to rise, and the operating cost pressure on the company has sharply increased. In addition, changes in the e-commerce environment and consumer preferences also affect the sales channel strategy of cosmetics brands. In the face of these uncertain factors, the hidden dangers of the company's current single operating channel are gradually exposed, and growth is slowing down.

The objectives of this project are to design a plan to increase the sales of Lily & Beauty. As such, the external and internal situational analysis were done, as well as the PESTLE and SWOT analysis.

This project is divided into five chapters. Chapter 1 presents the introduction, which describes the brief background, problem, objectives of the project and methods. Chapter 2 presents the literature review, which defines the marketing concept in detail and the useful management tools to design the solution. Chapter 3 presents the methodology used in this project. Chapter 4 presents plan to increase the sales of Lily & Beauty, which is broken up into several sub-chapters. Chapter 5 is the conclusion.

2. Literature Review

2.1 Market Research

The field of market research has gained significant importance in the development of effective marketing strategies, particularly in the digital age. Numerous studies have emphasized the critical role of market research in understanding consumer behavior, market trends, and competitive landscapes (Smith et al. 2018). Smith et al. (2018) argue that effective market research requires a combination of quantitative and qualitative methods to gain a comprehensive understanding of the target audience. Furthermore, with the rise of digital technologies, data analytics have become an integral part of market research, providing insights into consumer preferences and behavior patterns (Johnson & Edelman, 2020).

One of the key aspects of market research is the analysis of competitors. Understanding the strategies, products, pricing, and market share of competitors is essential for developing a competitive edge (Kotler and Armstrong, 2018). Kotler and Armstrong (2018) point out the importance of continuous monitoring of the competitive landscape to identify new trends and opportunities.

Moreover, market research is also important to the marketing strategy development, brand positioning, and product design. It allows marketers to identify unique selling propositions and target niche markets that may be underserved by competitors (Kotler & Keller, 2012).

However, there are challenges associated with market research. One of the main challenges is the evolving nature of consumer behavior and preferences. As consumer preferences and behaviors change over time, market research must be conducted regularly to remain relevant (Davis & Long, 2015).

Market research plays a pivotal role in the development of effective marketing strategies in the digital age. It provides valuable insights into consumer behavior, market trends, and competitive landscapes, enabling marketers to make informed decisions and develop strategies that are tailored to their target audience. However, it is essential to keep up with the evolving nature of the market and ensure that ethical guidelines are followed to maintain the consumer trust.

2.2 Product Strategy

The product strategy is a fundamental component of any marketing mix, aiming to satisfy consumer needs and achieve business objectives.

According to Kotler et al. (2012), the product should meet the needs and expectations of the target market and provide value to the consumer. The product can be further categorized into different types, such as goods, services, or experiences, each with its own unique characteristics and challenges.

Another important aspect of product strategy is branding. Brands are identifiers of products that create identity and differentiate them from competitors (Kotler & Keller (2019). A strong brand can enhance consumer loyalty, create pricing power, and build long-term value for the business.

Product packaging also plays a crucial role in product strategy. Packaging not only protects the product but also communicates brand identity and attracts attention on shelves (Armstrong & Kotler, 2015). The packaging should reflect the quality of the product and create an overall positive experience for the consumer.

Product strategy also involves the product portfolio. The product portfolio should reflect the company's overall marketing strategy and goals, considering the relationship between different products and their potential for growth and profitability.

In addition, new product development is a critical part of product strategy. It involves understanding consumer needs, technology trends, and market opportunities to create innovative products that meet unmet needs or improve upon existing solutions (Hills & Hultman, 2017).

In conclusion, the product strategy is a multifaceted component of marketing that requires a comprehensive understanding of consumer needs, market dynamics, and business objectives. Effective product strategy should consider various elements such as the product itself, branding, packaging, product portfolio management, and new product development. It is essential to stay abreast of market trends and competition to devise a winning product strategy that meets market demands while creating value for both consumers and businesses.

2.3 Online channels and platforms

The rise of digital technology has transformed the way businesses interact with their customers, introducing a new era of online channels and platforms.

One of the primary focuses of online channels and platforms is social media marketing. Social media platforms, such as Facebook, Twitter, and Instagram, provide businesses with a direct line to their target audience, enabling them to engage with customers, build brand awareness, and promote their products or services (Baines et al., 2019). Social media marketing not only reaches a wide audience but also enables real-time responses and two-way communication, strengthening the connection between the brand and its customers.

E-commerce platforms, such as Amazon and eBay, have revolutionized online shopping, providing consumers with a convenient and accessible platform to purchase products. These platforms allow businesses to sell their products online, expand their market reach, and provide additional services to their customers.

Mobile apps have also become an integral part of online channels and platforms. Mobile apps provide a user-friendly interface for customers to engage with businesses on the go. They offer features like push notifications, location-based services, and personalization options that enhance the customer experience and drive engagement.

Moreover, content marketing has emerged as a critical component of online channels and platforms. Content marketing involves creating valuable and engaging content that attracts and retains customers while positioning the brand as a thought leader in its industry.

Also, data analytics in online channels and platforms allows businesses to understand customer behavior, preferences, and trends, enabling them to target their marketing efforts more effectively.

In conclusion, online channels and platforms have transformed the way businesses interact with their customers, providing new opportunities for marketing and customer engagement. Social media marketing, e-commerce platforms, mobile apps, content marketing, online marketplaces, and data analytics are some of the key components of online channels and platforms that businesses must consider to stay relevant in today's digital landscape.

2.4 Digital marketing strategy

Digital marketing has become a critical component of marketing strategies for businesses across various industries.

One of the primary focuses of digital marketing strategy is audience targeting. Businesses must identify their target audience and tailor their marketing messages to their specific needs and preferences. This requires an understanding of customer behavior, preferences, and buying patterns, which can be obtained through data analytics and market research (Wang et al., 2022).

Content marketing is another essential element of digital marketing strategy. Creating valuable, engaging, and relevant content is crucial for attracting and retaining customers. Content can include blog posts, videos, podcasts, infographics, or social media posts, among others. Effective content marketing requires a consistent and strategic approach that aligns with the brand's positioning and goals (Zhao et al., 2021).

In addition, digital marketing strategy often involves using multiple channels to reach customers. These channels can include social media, email marketing, search engine optimization (SEO), and paid advertising (such as Google Ads or Facebook Ads). Successful digital marketers understand which channels are most effective for reaching their target audience and allocate resources accordingly (Ramos-Mora & Solano-Lopez, 2020).

Data analytics is also a critical component of digital marketing strategy. Marketers need to track and analyze data to understand which marketing efforts are most effective in attracting and converting customers. This data can provide insights into customer behavior, preferences, and trends, enabling marketers to refine their strategy over time (Lee & Park, 2021).

Moreover, personalization has become a key aspect of digital marketing strategy. Marketers can use data to tailor their messages and offers to individual customers, providing a more personalized and relevant experience. Personalized marketing can increase customer engagement and conversions while building a stronger relationship between the customer and the brand (Chen & Katz, 2019).

In conclusion, digital marketing strategy is essential for businesses seeking to connect with their target audience and drive sales. Audience targeting, content marketing, multiple channels, data analytics, and personalization are key elements that constitute a successful digital marketing strategy. By developing a strategic approach that incorporates these elements, businesses can achieve their marketing objectives and thrive in today's digital landscape.

2.5 SWOT Analysis

SWOT analysis is a strategic planning tool that has been widely used by businesses and organizations to identify their Strengths, Weaknesses, Opportunities, and Threats.

The history of SWOT analysis dates back to the 1980s when it was first developed by researchers at the Boston Consulting Group. Since then, it has become a popular tool for strategic planning and decision-making, particularly in the fields of management, marketing, and strategy (Brockbank & Taylor, 2010).

One of the key strengths of SWOT analysis lies in its ability to holistically consider both internal and external factors that affect an organization. It allows for a comprehensive assessment of the organization's competitive position and identification of potential opportunities and threats in the external environment. This synthesis of internal and external factors enables organizations to develop more informed strategies and decisions (Coombs, 2014).

However, there are also criticisms of SWOT analysis. Some scholars argue that it can be overly simplistic, resulting in a deterministic and linear approach to strategy development. They suggest that the traditional SWOT analysis does not adequately capture complexities and uncertainties in the environment, leading to an overreliance on predefined categories of strengths, weaknesses, opportunities, and threats (Gheorghe & Debackere, 2009).

To address these criticisms, some scholars have proposed modifications and extensions to the traditional SWOT analysis. One such extension is the SWOT model integration with other strategic frameworks such as Porter's Five Forces or the Generic Strategies. Others suggest using a more dynamic approach that considers the evolution of strengths and

weaknesses over time in response to changing external factors (Hsu & Chen, 2015).

In conclusion, SWOT analysis remains a popular tool for strategic planning and decision-making despite some limitations and criticisms. Its strength lies in its ability to holistically consider internal and external factors in assessing an organization's competitive position. However, organizations need to be mindful of its limitations and adapt it based on their specific context and objectives.

3. Methodology

The objective of this project is to design a plan to increase the sales of Lily & Beauty.

The methodology used in this project involves a comprehensive approach that combines literature review, internal and external analysis, PESTLE analysis, SWOT analysis and data analysis.

The literature review involves an examination of existing research and theory on the subject. It provides a foundation for understanding the current state of knowledge in the field and identifies key concepts, theories, and approaches that inform the analysis.

PESTLE analysis is used to identify and understand the external factors of Lily & Beauty, involving Political, Economic, Social, Technological, Legal, and Environmental that can affect an organization.

SWOT analysis (which summarizes Lily & Beauty's strengths, weaknesses, opportunities and threats) will be the basis for the design of the plan to increase the sales of Lily & Beauty by developing a channel expansion. It helps to identify internal and external factors that can impact the performance and strategic direction.

Through interviews it could be understood consumers' perception, attitude, behavior and opinions about Lily & Beauty. The three times of these interviews started from Sept 22 to Nov 24, 2023. The analysis of these answers and data will be useful in market segmentation, target market identification, product positioning, budget determination, and to development of an effective channel expansion plan to increase the sales of Lily & Beauty.

By combining these methodologies, the solution aims to gain a comprehensive understanding of Lily & Beauty's current situation. The resulting sales increase plan will be based on this analysis and aim to achieve desired outcomes for Lily & Beauty.

4. Plan to Increase the Sales of Lily & Beauty

4.1 Executive Summary

With the booming development of cosmetics e-commerce, there are some online operation agencies to help brand operation for online businesses are born; Lily & Beauty is one of them.

With the rapid changes in society, economy, and culture, the values and consumption habits of Chinese residents are gradually changing, and people's requirements and cognition for image are gradually increasing. Cosmetics are no longer exclusive to young women. More and more men are paying attention to their own image management, and their attention to cosmetics is constantly increasing. Young men are particularly active and have full consumption potential.

Under the influence of multiple factors such as the continuous expansion of consumer groups, the gradual improvement of consumption power, and the diversification of sales channels, the prosperity of China's cosmetics industry continues to rise, and the scale of the cosmetics market is steadily expanding.

In 2021, the sales of cosmetics by major enterprises in China reached 261.9 billion yuan, a year-on-year increase of 4.2%. The proportion of cosmetics consumption to the total retail sales of consumer goods in society increased to 1.6%.

Lily & Beauty is an early established Alibaba based cosmetics e-commerce retail service provider, benefiting from the traffic of this platform and it is developing rapidly. However, as the number of users of traditional e-commerce platforms tends to saturation and the diversion effect of emerging e-commerce platforms, the cost of online customer acquisition continues to rise, and the operating cost pressure on the company has sharply increased. In addition, changes in the e-commerce environment and consumer preferences also affect the sales channel strategy of cosmetics brands. In the face of these uncertain factors, the hidden dangers of the company's current single operating channel are gradually exposed, and growth is slowing down.

As such, this plan intends to diagnose the internal and external factors that influence the Lily & Beauty business, and propose a set of actions to increase the sales of the company.

The main proposals are to create high quality short video, KOL cooperation, organize

challenge activities, to have traffic investment for Ticktok. To create high quality notes posts, KOL cooperation, participate in platform topic activities, to have traffic investment for Little Red Book. To invest on product display design, to do product trial activities, to plan group sales activities, to organize limited time discount activities, coupon activities, to have traffic investment on Poizon platform.

To implement these actions, it is estimated a budget of 3,844,961 Euro (29,760,000 RMB).

4.2 External Situational Analysis

4.2.1 PESTE Analysis

4.2.1.1 Political and Legal Context

China's cosmetics industry policies and regulations mainly involve import taxes, consumption taxes, brand access, and product registration. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Consumption Tax Policy for Cosmetics, the consumption tax on skincare products was cancelled from October 1, 2016. The Chinese government has been actively promoting digitalization and e-commerce growth, which has provided a significant boost to the cosmetics e-commerce industry. This has created a favorable environment for companies like Lily & Beauty to expand their online presence and reach a wider consumer base.

At present, China's regulatory policies and regulations on imported cosmetics mainly include the "Measures for the Supervision and Administration of Import and Export Cosmetics" issued by the State Administration for Entry Exit Inspection and Quarantine, as well as the "Hygiene License for Imported Special Purpose Cosmetics" issued by the State Administration for Market Regulation.

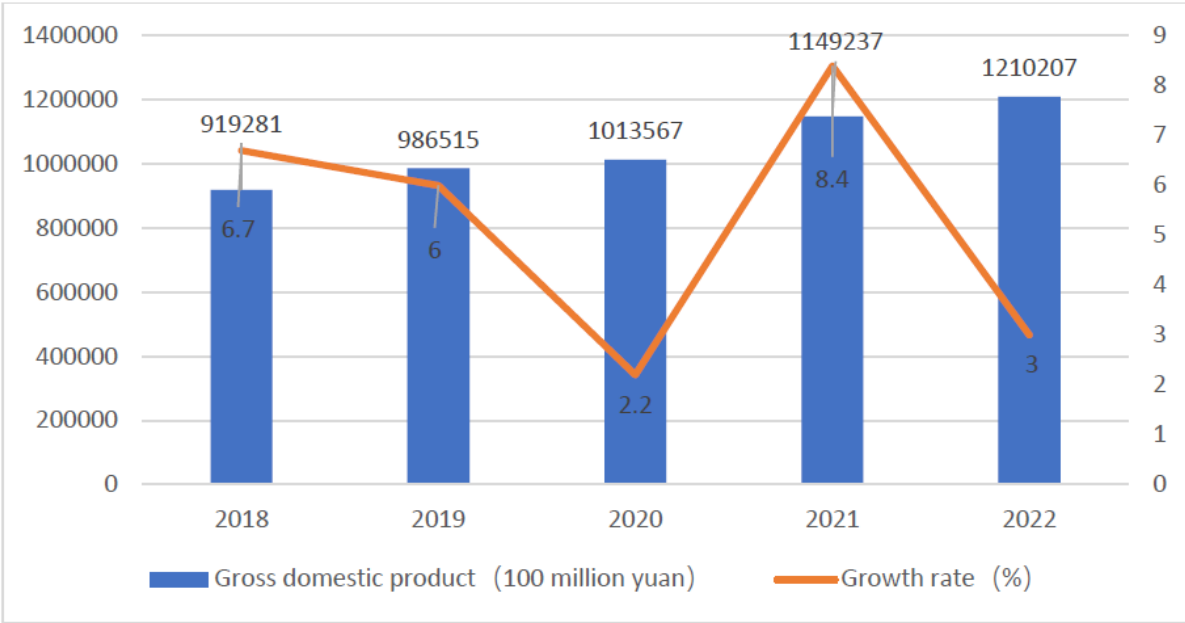
Furthermore, in recent years, with the increasing concern of consumers about the safety of cosmetics, the Chinese government has strengthened its supervision of the cosmetics industry and introduced a series of regulations and policies related to cosmetics safety and labeling. In 2021, China implemented a new Regulation on the Supervision and Administration of Cosmetics, which put forward stricter requirements for the composition,

safety assessment, and labeling of cosmetics. These changes have had a profound impact on the cosmetics industry, especially e-commerce companies like Lily & Beauty.

4.2.1.2 Economic Context

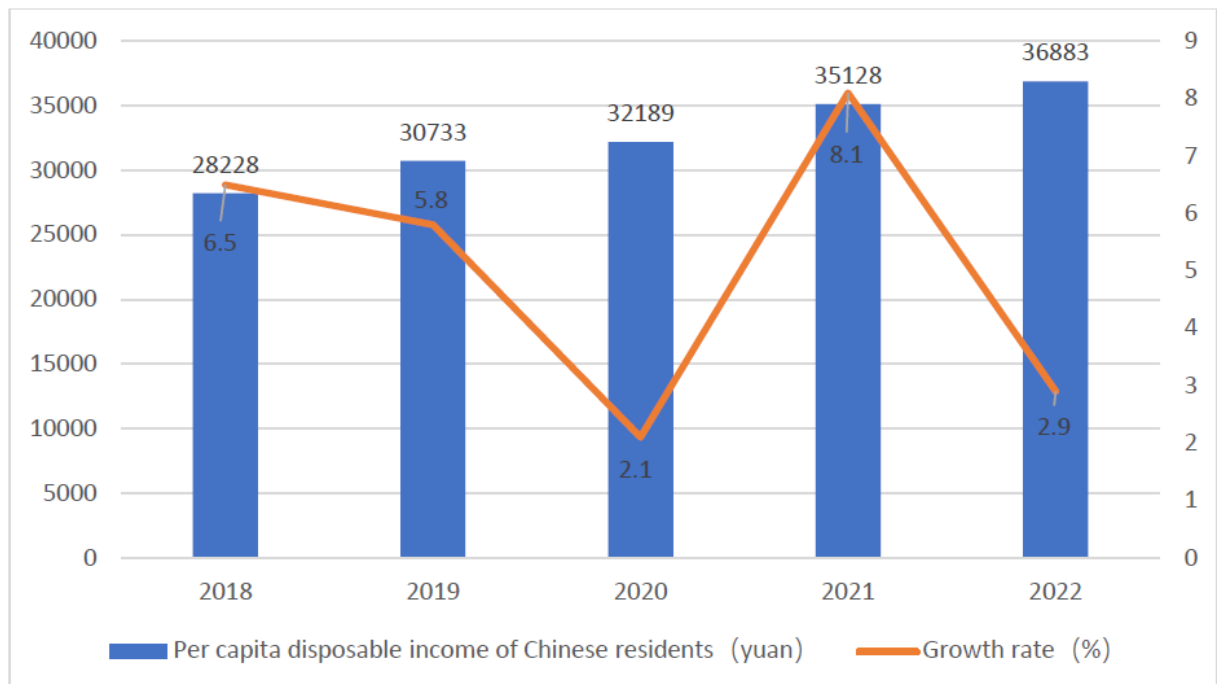
With the development of China's social economy, people's living standards are constantly improving, and cosmetics have gradually become people's daily necessities. According to data from the National Bureau of Statistics, China's GDP in 2022 was 121020.7 billion yuan, an increase of 3.0% over the previous year. The annual per capita disposable income of Chinese residents was 36,883 yuan, an increase of 5.0% over the previous year, and a real increase of 2.9% after deducting price factors. The cumulative retail sales of cosmetics in China reached 393.6 billion yuan in 2022, although compared to 2021 (402.6 billion yuan), the sales decrease of 2.2%, looking at the annual sales trends in the past six years (2017-2022), the sales of the cosmetics market continue to rise. At present, China's economy is steadily improving. The development trend is constantly consolidating and strengthening. In the future, the Chinese cosmetics market will surely usher in more significant development space.

Figure 4.1-2018-2022 GDP (unit: 100 million yuan, %)



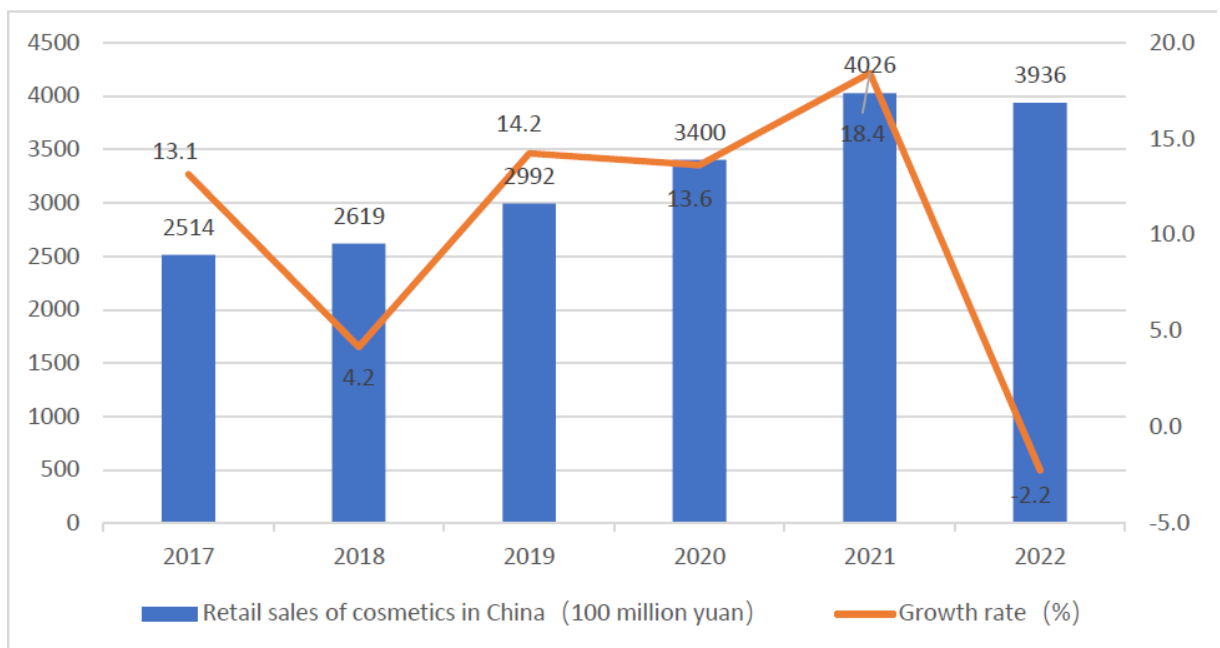
Source: National Bureau of Statistics (2023)

Figure 4.2-Per capita disposable income of Chinese residents from 2018 to 2022 (unit:yuan,%)



Source: National Bureau of Statistics (2023)

Figure 4.3-Retail sales growth of cosmetics in China from 2017 to 2022 (unit: 100 million yuan, %)



Source: National Bureau of Statistics (2023)

4.2.1.3 Socio-Cultural Context

With social progress and cultural diversity, people's pursuit of beauty is no longer limited to a specific gender or age group. Men are starting to pay more attention to their appearance and image, especially among young men, and this trend is more pronounced. This means that the cosmetics market is no longer solely dominated by women, and the men's cosmetics market is gradually becoming a new growth point.

With the development of the economy and the improvement of people's living standards, the demand for cosmetics by consumers is also constantly increasing. Especially in second - and third tier cities, with the improvement of residents' income and consumption ability, the acceptance of cosmetics by consumers is increasing. This change in consumption habits provides new development opportunities for the cosmetics market.

In the era of information explosion, brands have become an important basis for consumers to choose products. A brand is not just a product logo, but also a reflection of a company's reputation, product quality, and service. Therefore, brand building has become an indispensable part of cosmetic enterprises. Enterprises need to strengthen brand promotion and publicity, improve brand awareness and reputation, in order to attract more consumers.

With the rapid development of e-commerce, online shopping has become a part of consumers' daily lives. However, offline physical stores still have their unique advantages, such as providing firsthand experience, after-sales service, etc. Therefore, cosmetics companies need to achieve the integration of online and offline, providing consumers with a more convenient and comprehensive shopping experience.

4.2.1.4 Technological Context

Lily & Beauty can use AI and big data technology to conduct in-depth analysis of consumer behavior, purchase history, preferences, etc., in order to provide consumers with more personalized product recommendations and marketing information. This technology not only improves marketing efficiency, but also enhances the connection between consumers and brands.

Data analysis can also help Lily & Beauty optimize product design and development to meet specific market needs, thereby improving product competitiveness.

The rapid development and popularization of mobile payment technology have provided Lily & Beauty with a convenient and secure payment solution. This payment method not only improves the efficiency and security of transactions, but also provides consumers with a smoother shopping experience. Lily & Beauty needs to ensure the security of their checkout process to protect consumer personal information and transaction data. By adopting advanced encryption technology and security measures, Lily & Beauty can win the trust of consumers and establish a good brand image.

Social media platforms have become an important channel for brands to interact with consumers. Lily & Beauty can use these platforms for brand promotion, product promotion, customer interaction, etc., in order to expand brand awareness and enhance market influence. By posting interesting and attractive content on social media, Lily & Beauty can attract more followers and establish close connections with them. In addition, Lily & Beauty can also utilize social media platforms to collect user feedback for continuous improvement of products and services.

4.2.1.5 Environmental Context

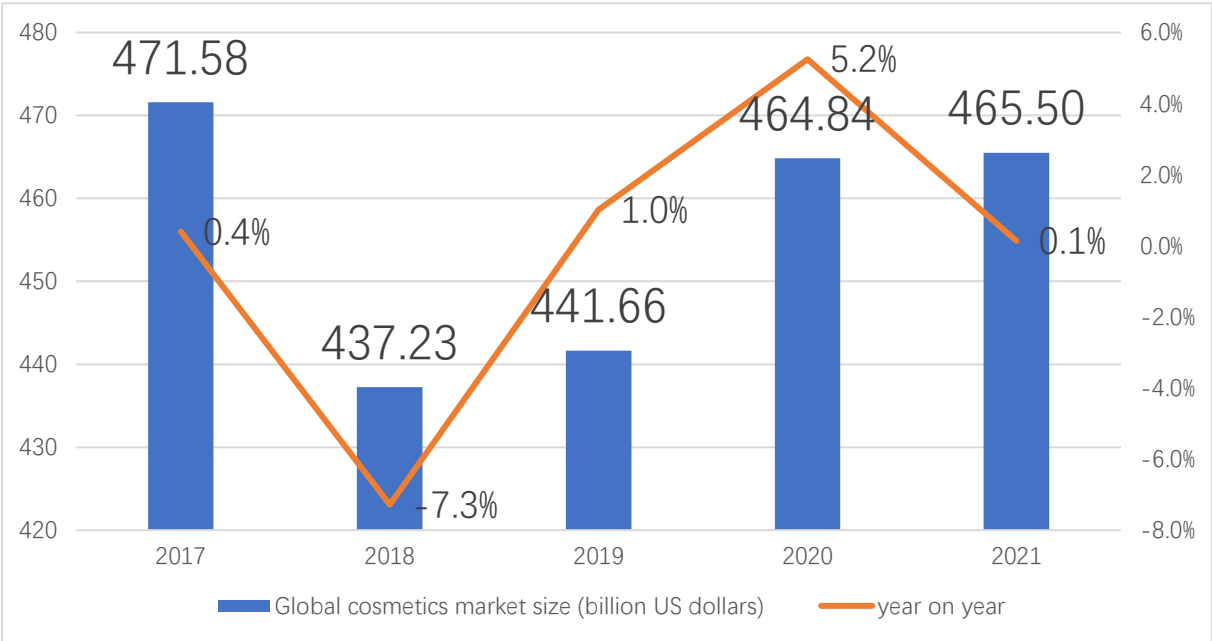
The cosmetics industry is facing demands and pressures from all parties to reduce environmental impact. This is not only reflected in environmental management and energy conservation and emission reduction in the production process, but more importantly, in the reduction of product packaging waste and the use of sustainable materials. With the increasing attention of consumers to environmental issues, they are beginning to pay more attention to the environmental impact of the products they purchase. This means that consumers are more inclined to choose brands that focus on sustainability and environmental protection. Also, with the advancement of technology, more and more sustainable materials are being developed and applied in the cosmetics industry. The use of these sustainable materials not only helps reduce environmental impact, but also helps brands establish a green and environmentally friendly image. In response to consumer environmental needs and market

changes, many brands have begun to adopt green marketing strategies and demonstrate their environmental commitment through various sustainability initiatives. These measures not only help brands establish closer connections with consumers, but also enhance their competitiveness in the market.

4.2.2 Sector Analysis

Data shows that the global cosmetics market reached a scale of 465.50 billion US dollars in 2021, a year-on-year increase of 0.1%, and a decrease of 5.2 percentage points in growth rate compared to 2020 (Figure 4.4)

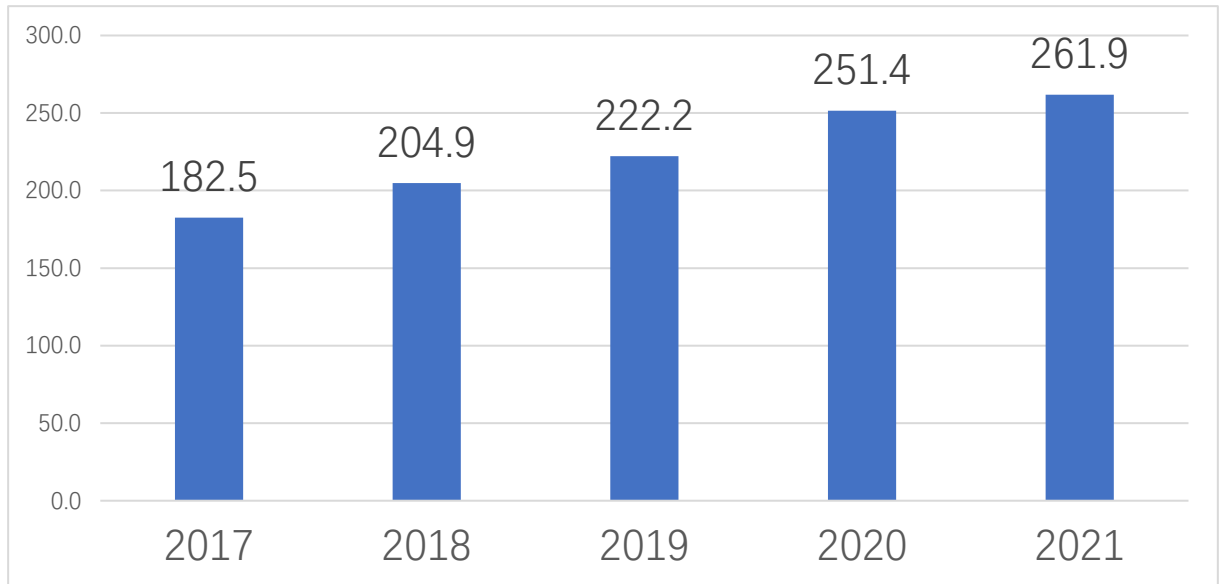
Figure 4.4 - Global cosmetics market size and growth situation 2017-2021



Source: Euromonitor, iiMedia Research

As an emerging market for cosmetics, China's cosmetics consumption is in a stage of rapid growth. From 2017 to 2021, the retail scale of the Chinese cosmetics market continued to expand, but the growth rate declined in 2021. The sales of cosmetics by enterprises above the designated size reached 261.9 billion yuan in 2021, a year-on-year increase of 4.2%.(Figure 4.5).

Figure 4.5 - Retail sales of cosmetics for enterprises above designated size in China 2017-2021 (billion yuan)

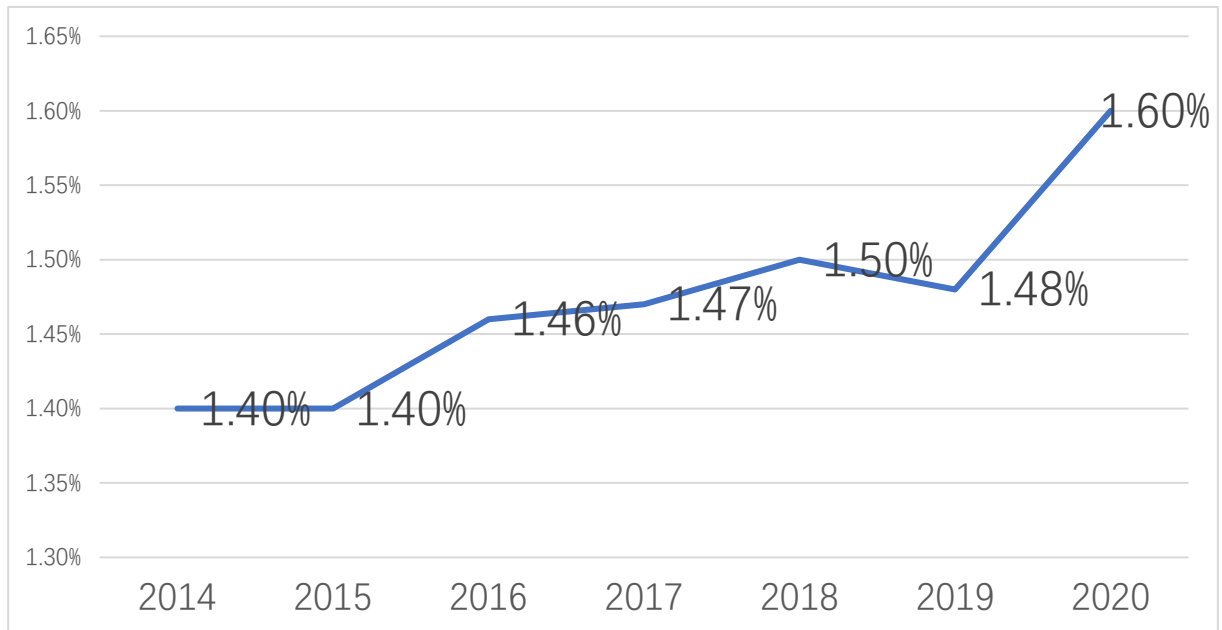


Note: Units above the quota refer to wholesale enterprises (units) with an annual main business income of 20 million yuan or more, and retail enterprises (units) with an annual main business income of 5 million yuan or more.

Source: National Bureau of Statistics (2022)

From 2014 to 2020, the proportion of cosmetics consumption to the total retail sales of consumer goods in society in China gradually increased, from 1.4% to 1.6%. (Figure 4.6). With the improvement of income levels and changes in consumer attitudes among Chinese residents, the demand for cosmetics is gradually shifting towards rigid demand, and there is still significant room for growth in this number.

Figure 4.6 - China's cosmetics consumption accounts for the total retail sales of consumer goods in society 2014-2020



Source: National Bureau of Statistics (2021)

4.2.2.1 The Industry

Lily & Beauty mainly engages in online sales and services of cosmetics products, belonging to the internet retail service industry in the internet industry. The company's operations are influenced by both the e-commerce industry and the cosmetics industry. There are two main methods for online retail of cosmetics: direct sales and agency operations. The direct sales model refers to the cosmetics brand building their own e-commerce team, directly responsible for the operation of the e-commerce platform's stores, and the brand providing commissions to the e-commerce platform based on sales revenue. The proxy operation model refers to the outsourcing of the operation and marketing work of the cosmetics brand to a third-party proxy operator, who helps the brand connect with e-commerce platforms and achieve product sales. The third-party proxy operator makes profits through price differences between buying and selling or charging service fees. The current main business of Lily & Beauty is the agency operation of cosmetics brands, which includes two categories: e-commerce retail business and brand operation business. Its e-commerce retail business is a buyout operation, with ownership of online stores and products. Brand operation business only provides brand operation services and does not have ownership of stores and products.

4.2.2.2 Industry Development History

In 2006, the e-commerce industry entered a period of rapid development. With the support of national policies, the basic environment continues to mature, and bottlenecks such as logistics, payment, and integrity have been resolved. Various enterprises have successively carried out e-commerce business. In 2008, Alibaba Group launched the Taobao Mall B2C shopping platform (predecessor of Tmall), which established a set of rules and systems for brand owners to settle in, and also provided a relatively systematic and comprehensive platform for brand owners to "touch the internet". This period is the starting stage of the e-commerce service industry, with service providers focusing on financial payment services and IT services.

From 2009 to 2014, consumer demand for online shopping was released, and the volume of online shopping business exploded. As a result, there has been a sharp increase in demand for logistics, warehousing, supply chain and other services. The e-commerce service industry has entered a period of rapid development. Due to the lack of experience in e-commerce operations and online marketing in traditional brand enterprises, a group of e-commerce agency operators have emerged. Among them, some enterprises focus on the online distribution model characterized by buyout operations and providing warehousing and logistics, which reduces risks for brand owners and meets their requirements for integrated operation and sales, allowing them to survive through market screening. The industry market is developing rapidly, and various enterprises have gained huge profits.

After 2014, with the rise of mobile internet and further development of internet finance, new models and technologies such as O2O model (consumer online screening services, offline experience services), artificial intelligence, and big data are emerging. The demographic dividend of e-commerce is gradually disappearing, the hierarchy of consumer groups is becoming increasingly clear, the cost of traffic is constantly increasing, and various brands are increasing their competition for the existing market. This has led to a gradual shift in the focus of e-commerce services towards integrated marketing and brand operations.

4.2.2.3 Industry Chain Structure

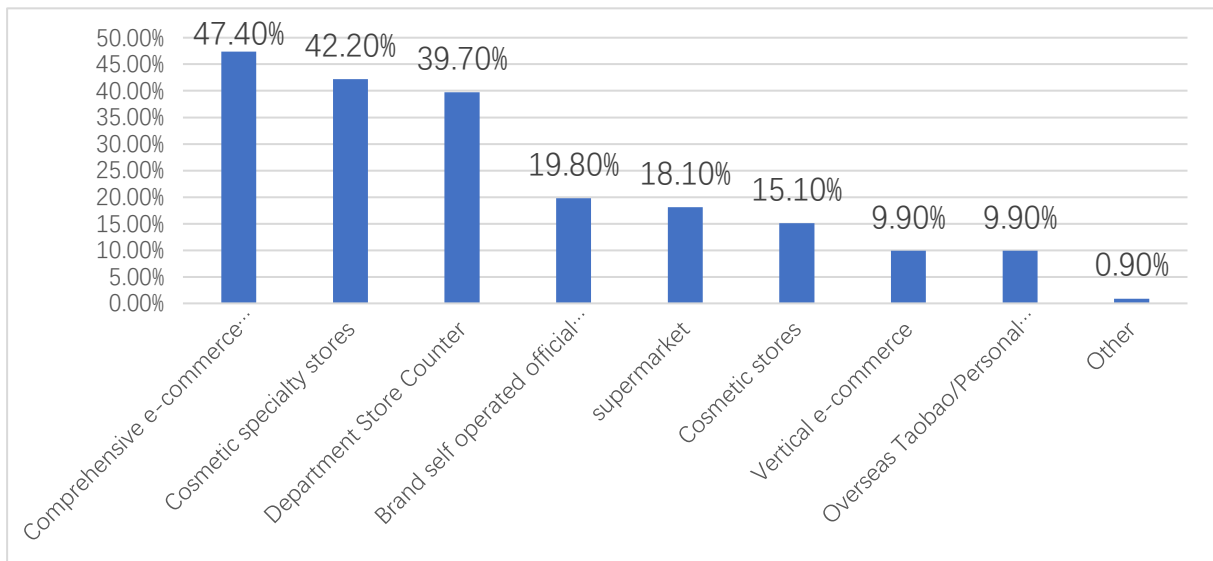
From the perspective of the entire cosmetics industry, Lily & Beauty is located in the middle and lower reaches of the cosmetics industry chain in terms of commodity circulation. In the traditional model, brands purchase raw materials/packaging upstream, manufacture goods, and then sell cosmetics through offline channels such as brand specialty stores, department stores, specialty stores, etc. After the rise of e-commerce, comprehensive B2C platforms such as Tmall have risen strongly, and various brands have a demand to open online counters. In addition, brands can also sell their products through vertical self-operated B2C platforms (such as Vipshop, Jumei Youpin, etc.), self-built brand official websites, and shopping malls.

From the perspective of bargaining power, upstream cosmetics suppliers have not yet formed a unified alliance, with fierce competition and weak bargaining power among suppliers. In contrast, there are multiple giant companies in various aspects of the brand, which have strong control over upstream prices. The bargaining power of distributors and retail service providers in the middle and lower reaches comes from their control over sales channels. For online retail service providers, the traffic entry of channels is largely controlled by e-commerce platforms, so their bargaining power is relatively weak.

4.2.2.4 Industry Status

With the popularization of online sales models, as well as the influence of live broadcasts, short videos, images, and texts of "beauty experts" and "beauty recommendations", online sales of cosmetics have gradually gained consumer recognition. According to data from iiMedia Research (2021) 47.4% of consumers are more inclined to purchase cosmetics on comprehensive e-commerce platforms, 42.2% of consumers purchase cosmetics at specialty stores, and 39.7% of consumers directly purchase cosmetics at department store counters. (Figure 4.7)

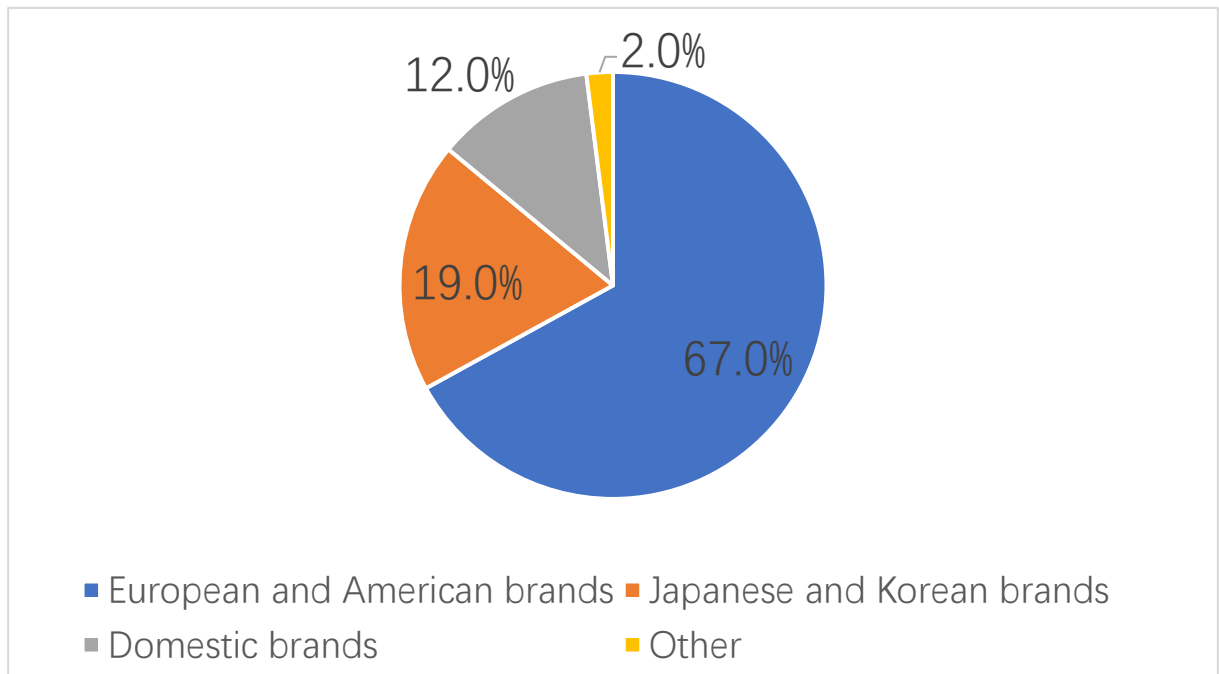
Figure 4.7 - Distribution of channels for Chinese consumers to purchase cosmetics 2021



Source: iiMedia Research

International brands, especially European and American brands such as Estée Lauder and Lancôme, have long maintained a high level of attention in the Chinese cosmetics market. as can be seen on Figure 4.8.

Figure 4.8 - Online consumer cosmetics search attention 2021

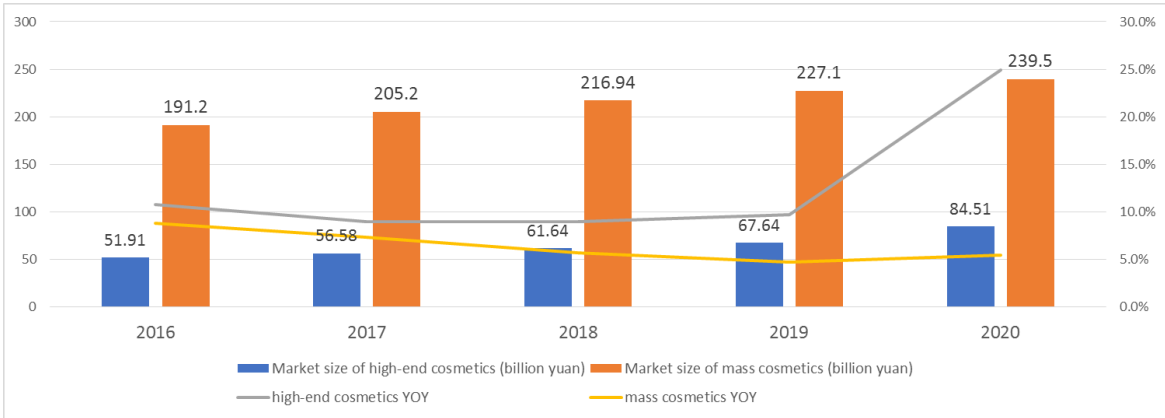


Source: iiMedia Research

In addition, with the improvement of consumption level, Chinese consumers are also

striving for excellence in their demand for makeup products, especially skincare products. Chinese consumers are no longer satisfied with using low-end products for basic skin care, and there is an increasing demand for high-end brands and products with better skincare effects.

Figure 4.9 - The scale of China's high-end cosmetics and mass cosmetics market 2016-2020



Source: Euromonitor, iiMedia Research

Consumer surveys also show that when choosing cosmetics, word-of-mouth has a greater impact on consumer purchasing decisions, followed by the brand and efficacy of the cosmetics. In terms of obtaining information on cosmetics, consumers mainly rely on online forums/social media, friend recommendations, and television advertisements to obtain information related to cosmetics and brands.

4.2.2.5 Industry Trends

The cost of traffic is gradually increasing, and the demand for brand building is increasingly strengthening. With the reduction of the demographic dividend of e-commerce, the cost of traffic is increasing day by day. This puts higher demands on the brand building capabilities of various brands. The competition for the stock market requires brands to strengthen brand building, enhance user stickiness through refined operations, and improve traffic conversion rates. The focus of cosmetics e-commerce services will further shift towards brand operation services. By providing integrated solutions for e-commerce development, including internet

brand communication, digital marketing, big data analysis, customer relationship maintenance, online and offline collaboration, E-commerce enterprises can more efficiently attract consumers and enhance the value of service providers to the brand.

The consumer group in the cosmetics industry is further expanding. Although the demographic dividend of e-commerce has decreased, there is a trend towards further expansion of the consumer group in the cosmetics market, including the growth of male consumer groups and the growth of consumer groups in second - and third tier cities. In recent years, the public's acceptance of multiculturalism has increased, and beauty is no longer exclusive to women. More men have begun to pay attention to the field of beauty. In the field of male beauty interests, young men are more active, with the largest proportion being born in 1995. They are the main force of online male beauty consumption, with great consumption potential. Male cosmetics are an emerging blue ocean market. With the advancement of urbanization and the transformation of consumption oriented economic growth models, the number of residents and per capita income in second - and third tier cities have steadily increased, while consumption habits and concepts have undergone significant changes. Cosmetics, as a daily consumer product, have been increasingly accepted by more and more consumers.

4.2.3 Competitor Analysis

4.2.3.1 Main competitors

The company's comparable companies include vertical service providers in the cosmetics field, such as eBeauty Hangzhou and Winchance Tech Crop., as well as comprehensive service providers such as Baozun E-commerce, which covers the cosmetics category. From the perspective of revenue scale and brand cooperation, the company has a certain competitive advantage in the field of cosmetics online service providers.

Table 4.1 -Description of the Main Competitors of Lily & Beauty

	Brief description
eBeauty Hangzhou	Established in July 2012, it is an e-commerce enterprise focused on the vertical field of cosmetics. It has formed a business model mainly operating Tmall official flagship

	<p>stores and brand official websites, supplemented by distribution to mainstream e-commerce platforms and other online distributors. The service content covers flagship store and website construction, integrated marketing, store operation, customer service, business analysis, warehousing logistics, and supply chain management. The main cooperative brands include Est é e Lauder, Clinique, Clarins, Vichy, and Lifespring. In 2017, it was acquired 63% equity by Hangzhou Qingdao Jinwang, an A-share listed company, and became its wholly-owned subsidiary. In April 2019, the company was transferred to CITIC Capital. In 2020, the operating revenue was 1.66 billion yuan.</p>
Winchance Tech Crop.	<p>Established in April 2012, mainly engaged in providing e-commerce services across various channels for well-known domestic and foreign fast-moving consumer goods brands. As an important strategic partner of the brand, Winchance Technology provides online services for the brand throughout the entire chain, including brand image shaping, product design planning, integrated marketing planning, visual design, big data analysis, online brand operation, precise advertising placement, CRM management, pre-sales and after-sales services, warehousing and logistics. The company mainly provides services to Tmall flagship stores of cosmetics brands such as Baique Ling, Opelle, and Elizabeth Arden.</p>
Baozun E-Commerce	<p>Baozun mainly provides one-stop commercial solutions with brand e-commerce as the core, covering business content such as store operation, digital marketing, IT solutions, warehousing and distribution, and customer service. The cooperative brands of Baozun E-commerce mainly include Nike, Philips, Microsoft, etc., covering multiple product categories such as clothing, household appliances, electronic products, home decoration, food and health products, cosmetics, fast-moving consumer goods, and maternal and child products. Listed on the NASDAQ stock exchange in the United States in 2015. In 2022, the operating revenue was 2.55 billion yuan.</p>

Source: <https://www.lrlz.com/>, iiMedia Research (iMedia Consulting)

4.2.3.2 Comparison of online public opinion

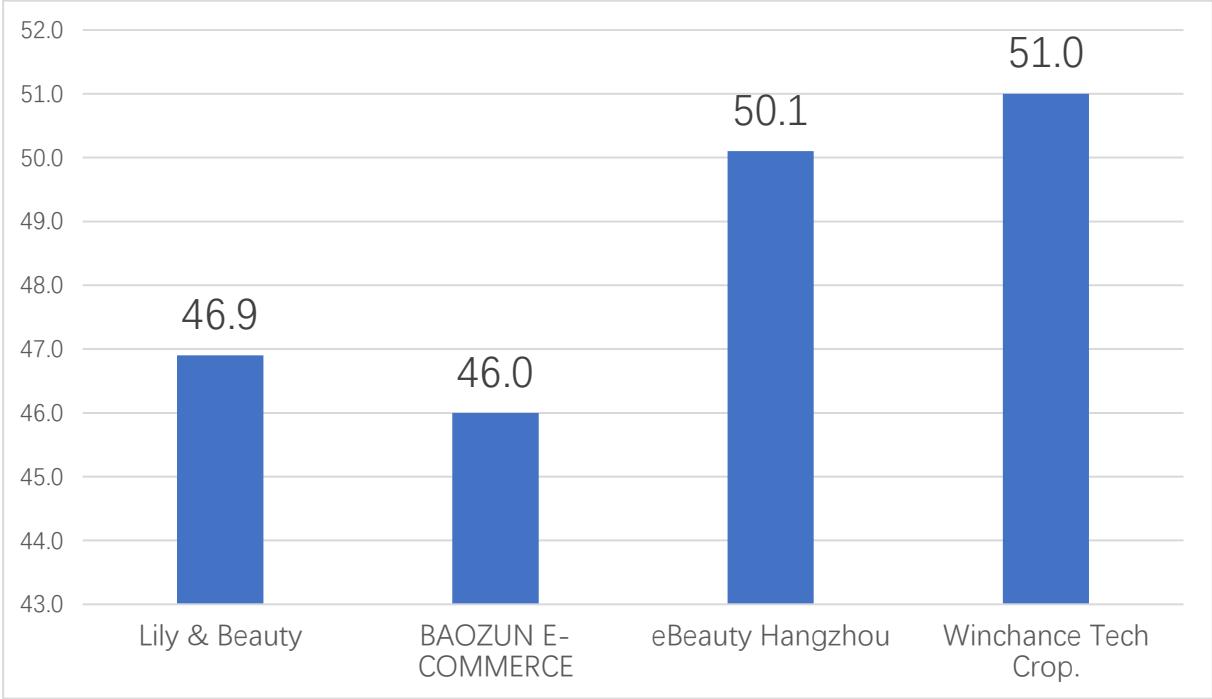
According to the data monitoring system of iMedia's business and public opinion, in terms of

popularity, the online popularity of Lily & Beauty is lower than that of the listed company Baozun E-commerce, but higher than that of Winchance Tech Crop. and eBeauty Hangzhou, reflecting the company's leading position in its segmented industries.

In terms of regional distribution of online popularity, the online popularity of beauty products is mainly concentrated in Shanghai, Beijing, and Guangdong. In contrast, Baozun e-commerce has a certain level of popularity in Beijing, Guangdong, and Shanghai, with its main online popularity concentrated in Zhejiang.

From the perspective of online reputation, Lily & Beauty's performance is average. According to the data monitoring system of iMedia's business and public opinion, the online reputation value of Lily & Beauty was 46.9 out of 100, whereas the competitors eBeauty Hangzhou and Winchance Tech Crop have a slightly higher level of online reputation (Figure 4.10).

Figure 4.10 - Comparison of online reputation of e-commerce service companies, May, 2021



Note: Objective and real-time reflection of netizens' attitudes towards events, characters, and brands, with a value range of 0-100. A value above 50 indicates more positive reviews than negative reviews. When netizens give more negative reviews, the value is below 45.

Source: <https://www.lrlz.com/>, iiMedia Research (yq.iiMedia.cn)

4.3 Internal Situational Analysis

4.3.1 Company Introduction

Shanghai Lily & Beauty Cosmetics Co., Ltd. (referred to as Lily & Beauty) was established in 2010, with its headquarters located in Shanghai. It was jointly established by Beijing Lily & Beauty (established in 2007 and cancelled on July 28, 2016) and Huang Tao, with their respective investment ratios of 10% and 90%. The company mainly engages in cosmetics e-commerce retail business and brand marketing operation services, that is, accepting the commission of the brand owner, opening and operating official flagship stores online, and achieving online sales of products. In 2021, the revenue of Lily & Beauty reached 3.615 billion yuan, a year-on-year increase of 5.69%; Among them, e-commerce retail business is the core business, accounting for 92.55% of the company's operating revenue; The net profit was 252 million yuan, a year-on-year increase of 11.53%.

4.3.2 Development History

The founder of the company, Huang Tao, established Beijing Lily & Beauty in 2007. In April 2008, the flagship store of INOHERB was launched on Taobao Mall (predecessor of Tmall), marking the first collaboration between Lily & Beauty and the brand.

In 2009, warehouses for Lily & Beauty products in Shanghai and Guangzhou were completed and put into use. In 2010, the Shanghai Lily & Beauty Headquarters was established, with brands such as CARNIER and MININURSE entering.

In 2012, Tmall was established. From 2012 to 2015, the company obtained authentic product licenses from various brands at a rate of approximately 10 per year. As of 2018, the company has obtained authentic product licenses for over fifty brands, including SISLEY, ERNO LASZLO, SULWHASOO, LANEIGE, SCHWARZKOPF, and others.

4.3.3 Company Equity Structure

As of April 2019, founder Huang Tao holds 37.35% of the shares, of which he directly holds 37.22%, and is the actual controller of the company. The second largest shareholder of the

company is Alibaba Network, with a shareholding ratio of 19.55%. In addition, shareholders with a shareholding ratio greater than 5% also include Crescent Lily, Shanghai Liren, Milestone, Asia Pacific, and others.

Table 4.2 - Shareholding of Lily & Beauty

NO.	Shareholder	Nature of shares	before IPO		After IPO	
			Number of shares held	Shareholding ratio (%)	Number of shares held	Shareholding ratio (%)
1	Huang Tao	Domestic natural person shares	133,980,304	37.22	133,980,304	33.49
2	Alibaba Network	Domestic legal person shares	70,376,745	19.55	70,376,745	17.59
3	Crescent Lady	Foreign shares	34,876,426	9.69	34,876,426	8.72
4	Shanghai Liren	Domestic limited partnership	31,367,739	8.71	31,367,739	7.84
5	Milestone	Foreign shares	21,137,228	5.87	21,137,228	5.28
6	Asia Pacific	Foreign shares	21,137,228	5.87	21,137,228	5.28
7	CoStone Capital	Domestic limited partnership	16,094,193	4.47	16,094,193	4.02
8	Shanghai Lixiu	Domestic limited partnership	13,185,984	3.66	13,185,984	3.3
9	Shanghai Yili	Domestic limited partnership	3,743,605	1.04	3,743,605	0.94
10	GF Q ANHE	Domestic legal person shares	3,272,727	0.91	3,272,727	0.82
11	Hanli Qanlong	Domestic limited partnership	3,170,584	0.88	3,170,584	0.79
12	Hanli Qanjun	Domestic limited partnership	1,663,825	0.46	1,663,825	0.42
13	Hanli Qantai	Domestic limited partnership	1,663,825	0.46	1,663,825	0.42
14	Suzhou Guandiang	Domestic limited partnership	1,636,363	0.45	1,636,363	0.41
15	Suzhou Guanxin	Domestic limited partnership	1,636,363	0.45	1,636,363	0.41
16	Hanli Qanxiu	Domestic limited partnership	1,056,861	0.29	1,056,861	0.26
the proposed issuance of circulating shares this time			-	-	40,100,000	10.02
Total			360,000,000	100.00	400,100,000	100.00

Source: Prospectus

4.3.4 Company Financing and Listing History

Since its establishment, Lily & Beauty has received two rounds of investment from investors such as Alibaba and Crescent Group, with a total financing amount of 110 million yuan. In addition, the company attempted to establish an overseas structure for overseas financing and listing in 2014, which was terminated in 2015. The company first submitted a prospectus to the China Securities Regulatory Commission in August 2016, but the listing application was officially denied in January 2018. In April 2019, Lily & Beauty once again submitted an application for listing on the Sci Tech Innovation Board to the China Securities Regulatory Commission.

Table 4.3 - History of financing for Lily & Beauty

Investment time	Round	Financing Amount	Investor
April, 2015	B	100 million yuan RMB	Alibaba, Crescent Group, Maiden Investment, Hanli Capital
April, 2012	A	10 million yuan RMB	Alibaba

Source: IT Orange

4.3.5 Business Model

E-commerce retail business

E-commerce retail business refers to the company purchasing products from the brand owner or its domestic general agent through a buyout method, and opening an official brand flagship store on the e-commerce platform to sell products to end consumers in the form of online retail, forming product retail revenue. In the process of product sales, the company provides a series of services to brand owners, including store construction and operation, product procurement and inventory management, integrated marketing planning, precise promotion and placement, order execution, warehousing and logistics, customer service, etc. In terms of profit model, in the e-commerce retail business, the ownership of the store and goods belongs to the company, and the price difference between purchase and sale reflects the service value of the company. At the same time, unless otherwise agreed, the marketing expenses in the daily operation of the store are mainly borne by the company, and the difference between the sales price, procurement cost, and various expenses constitutes the source of profit for this business.

Brand marketing and operation services

Brand marketing and operation services refer to the company's acceptance of the brand's commission to build and operate its official online brand flagship store, or to provide marketing and promotion services for a certain product or activity for the brand. In this business, the company does not have ownership of the store and goods, and the brand owner independently bears the costs of warehousing, logistics, and other links unrelated to store operation. The main source of profit comes from the difference in investment in service fees and manpower, among which service fees generally include fixed service fees and service commissions linked to sales performance.

Online operation channels

As an online operator, the company has chosen Alibaba's e-commerce platform, which opens and operates cosmetics stores through Tmall and Taobao platforms. The company currently has a single online operation channel and a strong dependence on the Alibaba platform. In 2021, the company paid platform operation fees and advertising promotion fees to Alibaba

Group of 197 million yuan and 374 million yuan, respectively, accounting for 91.56% and 60.78% of transactions of the same type.

4.3.6 Main suppliers and sales brands

The main content of the company's procurement was cosmetics products. As of the end of 2021, Lily & Beauty had established partnerships with over 60 brands. From 2019 to 2021, the total procurement amount of the company's products was 1.766 billion yuan, 2.517 billion yuan, and 2.846 billion yuan, respectively, with the top five suppliers accounting for 77.16%, 82.48%, and 74.94% of the procurement amount, respectively (Table 4.4).

Table 4.4 -Top 5 suppliers of Lily & Beauty

Year	No.	Supplier	Amount	Proportion
2021	1	L'oreal group	826,480.50	29.04%
	2	Amory Pacific Trading Co., Ltd	577,003.10	20.28%
	3	HENKEL group	365,688.10	12.85%
	4	KANEBO (China) Co., Ltd	192,511.20	6.76%
	5	SPH KDL HEALTH Co., Ltd	171,006.70	6.01%
	TOTAL			2,132,689.60
2020	1	L'oreal group	1,039,122.50	41.28%
	2	Amory Pacific Trading Co., Ltd	454,559.40	18.06%
	3	HENKEL group	340,265.30	13.52%
	4	SPH KDL HEALTH Co., Ltd	135,658.00	5.39%
	5	KANEBO (China) Co., Ltd	106,542.80	4.23%
	TOTAL			2,076,148.00
2019	1	L'oreal group	521,867.70	29.55%
	2	HENKEL group	353,142.70	20.00%
	3	Amory Pacific Trading Co., Ltd	305,162.10	17.28%
	4	SPH KDL HEALTH Co., Ltd	101,037.80	5.72%
	5	SHXY E-commerce Co., Ltd	81,512.60	4.62%
	TOTAL			1,362,722.90

Source: <https://www.lrlz.com/>

In 2021, the sales revenue of the top five brands accounted for 48.84%, and the total sales revenue of the top ten brands accounted for 69.89%; This reflects the company's certain dependence on big brands. Lancôme, Paris L'Oréal, and others have terminated their cooperation with the company and are now being operated by Guangzhou Baiku Electronic

Technology Co., Ltd., which was previously acquired by L'Oréal Group.

Table 4.5 - Sales revenue of the top ten brand stores for Lily & Beauty 2021

Year	No.	Brand	sales revenue	Proportion
2021	1	Maybelline	472,745.80	13.08%
	2	Lancome	446,525.40	12.35%
	3	HENKEL	327,445.20	9.06%
	4	Laneige	267,133.00	7.39%
	5	Sulwhasoo	232,733.50	6.44%
	6	Avene	207,162.90	5.73%
	7	Freeplus	198,968.80	5.50%
	8	Inoherb	139,582.50	3.86%
	9	L'ORÉAL Paris	131,349.30	3.63%
	10	SEKKISEI	102,660.70	2.84%
TOTAL			2,526,307.10	69.89%

Source: <https://www.lrlz.com/>

4.3.7 Financial Situation

4.3.7.1 Profit Analysis

From 2019 to 2021, the company's operating revenue was 2.016 billion yuan, 3.42 billion yuan, and 3.615 billion yuan, respectively, with a slowdown in growth in 2021. The net profits were about 81 million yuan, 226 million yuan, and 252 million yuan, respectively. In 2022, the net profit was about -157 million yuan, marking the first loss. (Table 4.6)

Table 4.6 - Main Profit of Lily & Beauty (thousand yuan)

Item	2022	2021	2020	2019
operating revenue	3,241,531.13	3,614,812.60	3,420,274.10	2,015,798.00
operating profit	-180,749.22	345,425.10	291,257.50	93,703.60
Non operating income	1,255.54	2,318.20	2,990.50	5,523.60
Total profit	-179,189.18	347,369.30	292,019.80	99,074.10
Net profit	-156,779.57	251,688.80	225,676.20	80,705.00
Net profit attributable to shareholders of the parent company	-139,322.30	252,296.80	227,216.70	81,100.40
Net profit attributable to shareholders of the parent company after deducting non recurring gains and losses	-172,384.63	200,144.70	606,857.90	73,917.00

Source: <https://www.lrlz.com/>

From the perspective of revenue composition, the company's revenue structure is

relatively single. The proportion of revenue from e-commerce retail business has remained above 90% between 2019 and 2021, and its growth rate has significantly declined in 2021. The revenue from brand marketing and operation services increased by 36.90% year-on-year in 2021, but its small business scale did not have a significant impact on the overall profitability of the company.

In 2021, the company's comprehensive gross profit margin was 36.63%, of which the gross profit margin of e-commerce retail business was 36.14%, an increase of 1.69 percentage points from the previous year. The gross profit margin of e-commerce retail business is mainly affected by rebates, changes in brand sales revenue, the frequency and intensity of promotional activities, and the support provided by the brand. Due to the mature development of the industry and the comprehensive accumulation of operational experience, this data was relatively stable from 2019 to 2021.

The gross profit margin of the company during the reporting period was lower than the average of comparable companies in the industry during the same period. From a dynamic perspective, the company's gross profit margin was relatively stable at 35.32%, 35.20%, and 36.63%, between 2019 and 2021, respectively. However, the gross profit margin of Baozun E-commerce, which is also invested by Alibaba, has been significantly increased at 43.31%, 53.78%, and 62.27% in the same period (Table 4.7).

Table 4.7 - Comparison of gross profit margin between Lily & Beauty and other companies in the same industry

	2021	2020	2019
Shanghai Cross-border E-commerce	40.55%	49.77%	48.34%
Baozun E-Commerce	62.27%	53.78%	43.31%
Winchance Tech Crop.	-	46.84%	41.02%
Ruoyuchen	-	33.29%	42.57%
Average	-	49.52%	43.81%
Lily& Beauty	36.63%	35.20%	35.32%

Source: <https://www.lrlz.com/>

4.3.7.2 Analysis of operating costs and period expenses

In 2021, the company's operating costs reached 2.291 billion yuan, of which inventory costs were 2.172 billion-yuan, accounting for 94.93% of the operating costs. The higher inventory

costs of the company are related to the buyout sales model of its e-commerce retail business. The larger the scale of a company's procurement of cosmetics, the lower its procurement costs will be. However, the operating capital occupied by a large amount of inventory can also have adverse effects on the company's business development.

From 2019 to 2021, the company's period expenses were 608 million yuan, 910 million yuan, and 1.04 billion-yuan, accounting for 30.18%, 26.60%, and 28.76% of the same period's operating revenue, respectively. The main expense in the company's various period expenses is sales expenses. In 2021, the company's sales expenses reached 943 million-yuan, accounting for 26.08% of operating revenue, an increase of 2.11 percentage points compared to 2020.

In sales expenses, advertising expenses, warehousing and logistics expenses, platform operating expenses, and employee compensation expenses are the main expenses. From 2019 to 2021, the company's sales expenses increased, mainly due to the rapid growth of operating income, which led to an increase in platform operating fees paid. Meanwhile, the significant increase in shipment volume has led to further increases in corresponding warehousing and logistics costs; In addition, advertising costs have further increased. The advertising and platform operating expenses mainly flow towards the Tmall platform.

4.3.7.3 Analysis of Debt Repayment and Operating Capacity

In 2021, the company's current ratio was 2.52 and quick ratio was 1.81. The company's assets are mainly current assets (as of the end of 2021, the current assets were approximately 2.039 billion, accounting for 96.92% of the total assets), so the current ratio is relatively high. The large proportion of inventory is the reason for the significant difference between the two ratios, but the quick ratio has been increasing year by year, and the company's short-term solvency has improved.

In 2021, the company's asset liability ratio (parent company) was 46.58%. The overall debt to equity ratio of the company is higher than the average of comparable companies in the same industry (in 2020, the average debt to equity ratio of comparable companies in the same industry was 28.93%). In addition, the company's interest coverage ratio and profit before

interest, tax, depreciation, and amortization remain at a high level.

Table 4.8 - Solvency of Lily& Beauty 2019-2021

Index	2021	2020	2019
Current ratio	2.52	2.28	2.33
Quick ratio	1.81	1.69	1.46
Asset liability ratio (parent company)	46.58%	49.85%	44.01%
EBITDA (thousand yuan)	355,018.30	300,273.10	107,030.60
Interest coverage ratio	200.88	98.38	34.85

Source: <https://www.lrlz.com/>

In terms of operational capability, in 2021, the company's accounts receivable turnover rate, inventory turnover rate, and total asset turnover rate were 33.76, 4.69, and 1.92, respectively. Among them, the accounts receivable turnover rate is significantly higher than the average of comparable companies in the same industry (in 2020, the average of comparable companies in the same industry was 11.26), mainly due to differences in income structure and business models; The inventory turnover rate and total asset turnover rate are at a relatively reasonable level in the industry (in 2020, the average inventory turnover rate of comparable companies in the same industry was 6.07, and the average total asset turnover rate was 1.94).

Table 4.9 - Business capability of Lily & Beauty 2019-2021

Financial index	2021	2020	2019
Accounts receivable turnover rate	33.76	57.26	53.08
Inventory turnover rate	4.69	5.71	4.35
Total Asset turnover	1.92	2.34	1.82

Source: <https://www.lrlz.com/>

4.3.7.4 Cash flow analysis

The cash flow situation of the company from 2019 to 2021 is shown in Table 4.10.

Among them, the inflow of operating activities is mainly cash obtained from selling goods and providing services; The outflow of operating activities includes not only cash paid for purchasing goods and receiving services, but also operating costs (approximately

two-thirds of the former). During the reporting period, there was a significant difference between the net cash flow and net profit generated by the company's operating activities, mainly due to the company's payment of 166 million yuan in taxes in 2021 attributable to 2020.

The inflow and outflow of investment activities are mainly caused by the company's purchase and redemption of wealth management products and investments during the reporting period. The cash flow from financing activities mainly refers to the restricted funds deposited by the company in each period or the lifting of restrictions on such funds.

Table 4.10 - Main indicators of the consolidated cash flow statement of Lily & Beauty 2019-2021 (thousand yuan)

Item	2021	2020	2019
Net cash flow generated from operating	-139,403.00	329,457.90	-55,153.20
Net cash flow generated from investment	228,697.60	92,743.50	-146,705.60
Net cash flow generated from financing	-15,539.00	6,016.50	170,143.30
The impact of exchange rate fluctuations on cash and cash equivalents	4,819.90	4,389.70	2,487.70
Net increase in cash and cash equivalents	78,575.50	432,606.60	-29,227.70

Source: <https://www.lrlz.com/>

4.4 SWOT Analysis

Strengths

- Strong brand cooperation network: Collaborated with over 60 brands and established close cooperative relationships with top brands.
- Efficient operation and marketing capabilities: able to use user data for refined brand marketing, improving marketing efficiency.
- Rich industry experience and data accumulation: Lily & Beauty, as one of the early authorized flagship stores of beauty brands to enter the Tmall platform, has accumulated a large amount of user consumption data and practical experience, providing a solid

foundation for refined brand marketing.

- Strong e-commerce operation capability: The company has many years of operational experience in the e-commerce retail field, forming a mature e-commerce operation system that can efficiently manage online channels and sales.

Weaknesses

- Single online channel: Overreliance on the Alibaba platform, with concentrated business risks.
- The decline of e-commerce dividends: With saturated traffic growth and intensified market competition, companies are facing the problem of slowing marginal growth.
- Dependence on top brands: If major brands are lost or strategies are adjusted, it will have a significant impact on the company's revenue.

Opportunities

- The expansion of the cosmetics consumer market: With the increasing demand for image in society and the expansion of the cosmetics audience, the cosmetics industry has shown enormous growth potential.
- Refinement of brand marketing: With the development of mobile Internet and diversified communication media, brand marketing has become more refined, providing more marketing innovation opportunities for the company.

Threats

- Intensified competition on e-commerce platforms: With the rise of emerging channels such as social e-commerce platforms, traditional e-commerce platforms are facing competitive pressure.
- Unstable brand cooperation: Brand cooperation may be influenced by various factors, such as brand strategy adjustments, changes in rebate policies, etc., which pose a threat to the stable operation of the company.
- Rising customer acquisition costs: With the continuous increase in online customer acquisition costs, companies need to invest more funds and energy to maintain and expand their customer base.

4.5 Proposals to Increase the Sales of Lily & Beauty

In today's e-commerce era, multi-channel sales have become the key to the sustainable development of enterprises. As a well-known cosmetics brand, Lily & Beauty needs to keep up with market trends, expand sales channels, and improve brand awareness and sales. This plan is intended to provide a comprehensive multi-channel promotion strategy for Lily & Beauty, including multiple platforms such as Tiktok, Little Red Book, Poizon, Pinduoduo, etc., to promote the long-term development of the brand and reach the aforementioned objectives.

4.5.1 Tiktok promotion

As a representative of the short video sharing platform, Tiktok has a large user base and high activity, especially among the Gen Z and millennials. providing a broad space for brand promotion.

Lily & Beauty can release interesting and dynamic short videos on Tiktok to show the characteristics and use effects of the product and attract the attention of potential customers. At the same time, product demonstration and interaction can be conducted through Tiktok live broadcast to improve users' understanding of the product and purchase intention. In order to increase exposure, Lily & Beauty can consider cooperating with Tiktok celebrities or beauty bloggers to use their influence to expand brand awareness. The specific measures are as follows:

- **Create high-quality short videos**

Create a series of high-quality short videos showcasing the unique selling points and usage effects of the core products of Lily & Beauty. Video content should focus on creativity and fun to attract user attention.

- **Inviting internet celebrities/KOLs to collaborate**

Cooperate with online celebrities/KOL on the Tiktok platform and invite them to try and recommend the products of Lily & Beauty. This will allow to improve brand awareness and exposure through their reputation and influence.

- **Organizing Challenge Activities**

Initiate challenge activities related to Lily & Beauty, such as makeup challenges, tanning

challenges, etc., to encourage users to participate and share their makeup experience and product usage experience. This helps to improve user interactivity and engagement, while expanding brand influence.

4.5.2 Little Red Book Promotion

Little Red Book is a social media platform where users share product reviews, recommendations, and experiences. primarily focused on content sharing, gathering a large number of users who pursue a quality of life.

Lily & Beauty can open a brand account on Little Red Book and regularly post information about the use of cosmetics, skincare techniques, and other content to interact with users. In addition, well-known bloggers or celebrities can be invited to try out products and share experiences, enhancing brand image through word-of-mouth communication. At the same time, participating in UGC activities on Little Red Book, such as photo sharing and trial reports, can increase the brand's exposure. The specific measures are as follows:

- **Publish high-quality notes**

Invite professional makeup artists or beauty bloggers to write notes about Lily & Beauty products, introducing product features, usage techniques, etc. At the same time, encourage users to share their makeup experience and product usage experience, which allows to improve the brand's reputation and trust.

- **Collaborative KOL promotion**

Collaborate with well-known KOLs on the Little Red Book platform, invite them to try and recommend Lily & Beauty products. The influence and fan base of KOLs can help brands quickly reach their target audience and increase sales.

- **Participate in topic activities**

Follow and participate in related topic activities on Little Red Book, such as beauty contests, makeup tutorials, etc. By participating in topic activities, it will be possible to showcase the product advantages and effectiveness of Lily & Beauty, and increase brand exposure.

4.5.3 Poizon promotion

As a professional trendy shopping platform, Poizon is a leading online platform for sneakers, clothing, and accessories, with a growing influence in the makeup space. It has a large number of consumers who pursue quality and fashion.

Lily & Beauty can set up a brand section on Poizon to showcase product features and selling points. By collaborating with the platform for limited edition sales and co-branded products, Lily & Beauty aims to increase the brand's awareness in the fashion industry. At the same time, utilizing identification services to enhance consumer trust in the product. In addition, Lily & Beauty can participate in various forms of marketing activities such as themed events or festival celebrations to attract the attention of target consumers. The specific measures are as follows:

- **Refined product display**

Create detailed display pages for each product of Lily & Beauty on the Poizon platform, including product images, detailed introductions, user reviews, etc. By showcasing refined products, the company will increase user willingness and trust to purchase.

- **Community interactive marketing**

Utilize the advantages of the Poizon community to carry out a series of interactive marketing activities. For example, launching a makeup tutorial collection activity, inviting users to share their makeup experiences and techniques; organize product trial activities to encourage users to share their trial experiences and reviews within the community. Through community interactive marketing, the aim is to bridge the gap between brands and consumers, increase user loyalty, and increase repeat purchases.

4.5.4 Pinduoduo Promotion

Pinduoduo, as a leading Chinese e-commerce platform known for its group-buying discount model, is deeply loved by consumers for its features such as group buying and low prices.

Lily & Beauty can launch various promotional activities such as group buying and limited time discounts through the Pinduoduo platform, attracting the attention of price sensitive consumers. At the same time, the group buying model can be used to carry out old

and new activities, encouraging users to invite family and friends to purchase together, and expanding brand influence. In order to increase exposure, Lily & Beauty can participate in large-scale promotional activities on the Pinduoduo platform, such as "billion yuan subsidies" and "limited time flash sales", to increase brand awareness and sales. The specific measures are as follows:

- **Teamwork activities**

Initiate group buying activities on the Pinduoduo platform, encouraging users to invite family and friends to purchase Lily & Beauty products together. Through group buying activities, lower the price threshold of products and attract more users to participate in purchasing. At the same time, utilize social relationship chains to expand brand exposure.

- **Limited time discount**

Provide limited time discounts for Lily & Beauty products on the Pinduoduo platform for specific time periods (such as holidays, weekends, etc.). Attract the attention and purchase of price sensitive consumers through limited time discount activities. At the same time, discount activities can be used to stimulate user purchasing desire and increase sales.

- **Coupon distribution**

Publish coupons for Lily & Beauty on the Pinduoduo platform to provide users with additional discounts or benefits. Coupons can serve as an additional motivation for users to purchase products. Meanwhile, coupons can also help increase user loyalty and repurchase rates.

4.6 Implementation

4.6.1 Implementation Activities

To implement the plan aforementioned, it is crucial to operationalize the following activities:

- **Team building:** Establish a professional e-commerce operation team responsible for the specific execution of multi-channel promotion. Team members need to have rich experience and professional skills in e-commerce operations, and be able to develop targeted promotion strategies based on the characteristics of different platforms.

- Content production: Based on the characteristics of users on different platforms, create high-quality promotional content. It includes short videos, text and images, live streaming and other forms, emphasizing the fun and practicality of content to attract user attention and improve conversion rates.
- Cooperation negotiation: Actively negotiate cooperation with KOLs, internet celebrities, and other platforms to achieve brand promotion cooperation intentions. Expand the brand's influence on various platforms through collaboration with opinion leaders.
- Event planning: Plan various forms of promotional activities based on the market needs and user needs of different platforms. Some examples maybe group buying, limited time discounts, gifts, etc., to increase user purchasing willingness and participation.
- Data monitoring and analysis: Real time monitoring and analysis of multi-channel promotion data to adjust promotion strategies and optimize operational effectiveness in a timely manner. Through data analysis, it will be possible to identify effective promotion methods and potential growth points, providing a basis for subsequent marketing activities.
- Continuous optimization and improvement: Based on actual execution and market feedback, continuously optimize and improve multi-channel promotion plans, It will be important to pay attention to industry dynamics and the development trends of emerging platforms, and adjust strategies in a timely manner to maintain the brand's competitive advantage.

4.6.2 Budget

Platform	Activities	Budget (RMB)	Budget (EURO)	Remark
Tiktok	High quality short videos	600,000	77,519	1 video per month
	Tiktok KOL cooperate	100,000	12,920	100 KOLs
	Organizing Challenge Activities	600,000	77,519	3 times a year
	Platform Maintenance Fee	10,000,000	1,291,990	First year
	Traffic Investment	5,000,000	645,995	First year
LRB	High quality notes post	2,400,000	310,078	200 post per month
	Little Red Book KOL cooperate	2,500,000	322,997	500 KOLs
	Participate in topic Activities	3,000,000	387,597	30 Topics
	Platform Maintenance Fee	3,000,000	387,597	First year
	Traffic Investment	200,000	25,840	First year
Poizon	Product Display Design	300,000	38,760	per year
	Product Trial Activities in Poizon Community	600,000	77,519	12 times a year
	Group Buying Activites	200,000	25,840	2 times a year
	Limited time discount Activites	40,000	5,168	2 times a year
	Coupon Activites	20,000	2,584	2 times a year
	Platform Maintenance Fee	1,000,000	129,199	First year
	Traffic Investment	200,000	25,840	First year
TOTAL		29,760,000	3,844,961	

4.7 Expected effects of the plan

By implementing this plan, Lily & Beauty is expected to achieve the following objectives:

- Enhance brand awareness: Through multi-channel promotion activities and high-quality content output, the exposure of Lily & Beauty to the target audience will increase as well as brand awareness.
- Increase sales: Through promotional activities and collaborative promotion with the platforms, the sales volume of Lily & Beauty products effectively increases.
- Expanding target customer groups: Through precise marketing strategies and cooperation negotiations targeting different platforms, the target customer group of Lily & Beauty will expand, and the attention and purchase intention of potential consumers will increase.
- Enhance brand loyalty: Through interaction with users and high-quality service experience, the number of loyal customers of Lily & Beauty will increase, improving customer repurchase rate and word-of-mouth communication effect.
- Enhancing brand image: Through cooperation with well-known KOLs or celebrities and the output of high-quality content, the brand image of Lily & Beauty will be enhanced, enhancing consumer trust and favorability towards the brand.
- Data driven decision optimization: By monitoring and analyzing multi-channel promotion

data, Lily & Beauty will be able to adjust its strategies and optimize operational effectiveness in a timely manner, achieving more refined marketing management.

5. Conclusions

With the saturation of the number of users on traditional e-commerce platforms and the diversion effect of emerging e-commerce platforms, the cost of online customer acquisition continues to rise, and the operating cost pressure on the company has sharply increased. In addition, changes in the e-commerce environment and consumer preferences also affect the sales channel strategies of cosmetic brands. Faced with these uncertain factors, the hidden dangers of Lily & Beauty's single operating channel are gradually being exposed, and its growth rate is slowing down.

The objectives of the project are to present a solution to multi-channel expanding of Lily & Beauty to get sales increasing. As such, the external and internal situational analysis were done, as well as the PESTLE and SWOT analysis.

The methodology for this solution involves a comprehensive approach that combines literature review, SWOT analysis, PESTLE analysis and data analysis.

The proposal to increase the sales of Lily & Beauty is to keep up with market trends, expand sales channels, and increase brand awareness and sales. The plan aims to provide Lily Beauty with a comprehensive multi-channel promotion strategy, including Tiktok, Little Red Book, Poizon, Pinduoduo and other platforms, to promote the long-term development of the brand.

The limitations of this study include: the user behavior and market trends of emerging e-commerce platforms may not be comprehensive or accurate enough, the uncertainty of market changes, and the difficulty in predicting and quantifying the impact of competitors.

In view of this, the suggestion for further research is that Lily & Beauty needs to pay attention to market dynamics, technological developments, consumer demands, and competitor dynamics in its future development, and continuously explore new marketing strategies and business models to adapt to the constantly changing market environment. Only in this way can Lily & Beauty increase brand awareness and sales, and stand invincible in the fierce market competition.

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APPENDICES

Interviews

1. Access object and number of visits

The main target of this survey is the Lily&Beauty company. To ensure the accuracy and comprehensiveness of the research, I conducted multiple visits, totaling three times.

2. Access issues

During the visit, I raised a series of questions regarding the development status, market trends, and operational strategies of Lily&Beauty company. Specific issues include:

Date: 22nd Sep 2023

Time: 1 hour

Place: Lily's Office

People: Huang Tao

Position: CEO

1. What is the basic situation of the company?
2. What is the company's development history and current financial situation?
3. What is the current situation of the cosmetics industry?
4. What is the market positioning and development strategy of Lily & Beauty company?

Date: 24th Nov 2023

Time: 1 hour

Place: Lily's Office

People: Huang Tao

Position: CEO

1. What is the situation of the company's main competitors?
2. What are the current difficulties and opportunities the company is facing in increasing sales?
3. With the continuous increase in online customer acquisition costs, how does Lily & Beauty respond to this challenge?

Date: 24th Nov 2023

Time: 2 hours

Place: Lily's Office

People: Iris

Position: Development Division Head

1. What specific measures and achievements have been taken by Lily & Beauty in expanding diversified sales channels?
2. Faced with changes in the e-commerce environment and consumer preferences, how can Lily & Beauty adjust their sales channel strategies?
3. What are the key points and directions in the future development plan of Lily & Beauty?