The RED Edition

Issue 7

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Cisema

Message From the CEO

Dear Readers,

Welcome to the 7th issue of The Red Edition. In this issue, we take a deep dive into Little Red Book (LRB), have a look at the booming pet care market, and hear from our partners at Cisema on all things related to cosmetic registrations.

In many of our previous issues, we have talked about the importance of Little Red Book for brand and performance marketing, and although the platform has become more competitive when it comes to brands working with Key Opinion Leaders and more expensive in terms of media spend, LRB remains crucial for brand strategy. The shift in consumer demographics to include more male users, the relatively young follower base, and the strong purchasing power means that LRB will continue to hold promise for a wider target audience and an increasing number of categories.

These shifts are important for brands that are trying to focus on a particular persona. The 25 to 40-year-old female consumer is no longer the only relevant consumer type to target, and brands are spending more time investing in reaching different personas to build their sales, adjusting from an identity perspective to capture the attention of different generations. For brands to do this, they need to utilize test and learn strategies across different platforms. As we can see from the pet food category in China, a whole range of Chinese consumers are turning to pets for companionship and emotional fulfillment, from the more senior households to single millennial and Gen Z consumers. Each of these personas interact online in different ways, with the former turning to more professional pet care outlets, word-of-mouth and large public domains, and the latter being very influenced in their decision-making by social media platforms and Key Opinion Leaders.

Little Red Book's big promise to retain authenticity on their platform through heavily monitoring seeding and trying to centralize Key Opinion Leader and Key Opinion Consumer collaborations has been paying off. The platform has managed to stay and increase their relevance when it comes to consumer discourse on product experiences and discovery, despite their inability to increase interest among consumers to make purchases directly on the platform. Currently, LRB's commissions and fee structure also mean that for brands, Tmall and JD remain the main contenders for e-commerce.

As the market changes, brands have to adapt their e-commerce strategies in order to survive. Just five years ago, opening a Tmall Flagship Store was enough to grow a brand in the market, but now, brands need to consider a phased approach to online distribution. The other parts of the e-commerce ecosystem also need to be taken into consideration, including Taobao merchants, social commerce, WeChat stores, direct fulfillment, online retailers, Douyin and Kuaishou. Although we still suggest that brands start off through a Tmall Flagship Store, they need to be looking at the 3-year plan of how to roll out across other platforms. For many of our mature brands, their Tmall Flagship stores now account for less than 20% of their total online sales. Knowing the categorical differences and ways in which each platform can be utilized to drive sales is decisive when trying to make or break it in the Chinese market.

- Ryan Molloy, CEO

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Insights & Trends for Little Red Book in 2022

Insights & Trends for Little Red Book in 2022

By Sandra Weiss, RedFern Digital

Little Red Book (Xiaohongshu) is a thriving place for Chinese users to share product and brand experiences, provide and obtain recommendations and lifestyle tips, and most importantly, discover new products and brands. As one of the most popular platforms in China, LRB currently has over 150 million monthly active users, which is a 50% growth in traffic compared to January 2020.

The platform is known for its user-generated-content, which feels trustworthy and authentic to viewers and can be utilized for word-of-mouth marketing. This feature is further enhanced by the algorithmic feed that shows users a combination of content from accounts they follow, trending content, content based on user interests, and location-based content, making the platform perfect for product discovery. Moreover, due to this algorithm, posts on LRB, called notes, tend to have a much longer lifespan compared to platforms such as WeChat. Notes will still generate new traffic a month after being published, although the cycle of when and how content boosts occur is hard to predict. On the other hand, the lifespan of content on WeChat usually lasts less than 7 days, as it is only pushed to WeChat account followers, making it difficult to obtain organic traffic.

With that said, we will be diving into the top trends, insights, and strategy suggestions for Little Red Book for 2022.

Shift in User Demographic

Although the platform demographic remains largely female, the percentage of male users has risen from under 10% a few years ago to almost 30% today. Despite the influx of male users, LRB users remain young, with almost 75% under the age of 35 years old. Moreover, users on the platform tend to have higher purchasing power and over 50% come from Tier-1 and Tier-2 cities, including Shanghai, Beijing, and Guangzhou.

These shifts in demographics present new opportunities for brands and categories, with more male-dominated content having a chance to become popular on the platform and reach the relevant audience.

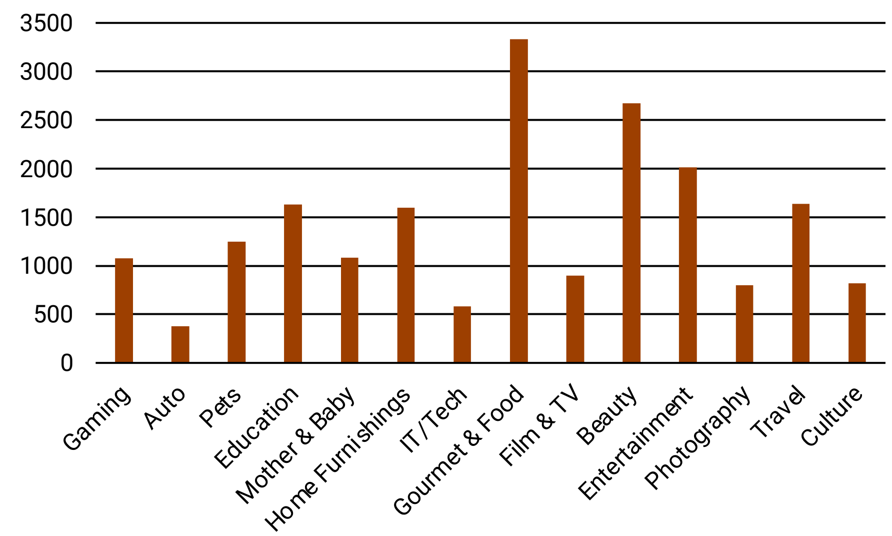
Top Categories on LRB

As seen in the graphs below, by the end of 2021, the top categories when it comes to notes posted on LRB include Gourmet & Food, Beauty, Entertainment, Travel, Home Furnishings, and Education. More typically male dominated categories such as Gaming and Auto are showing rapid growth.

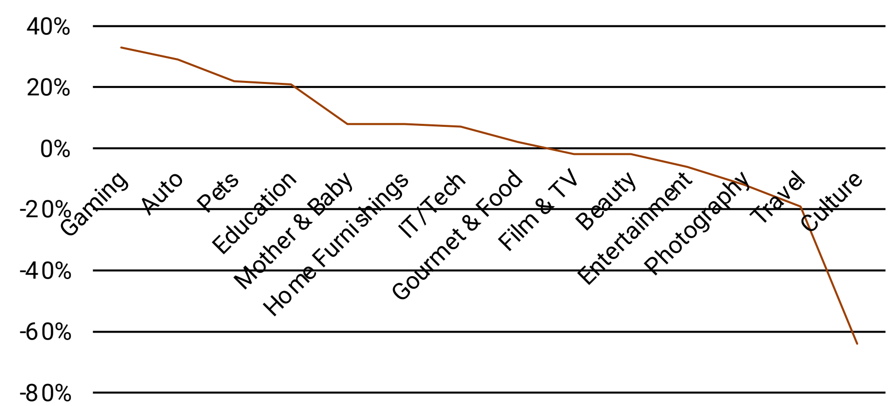
A more recent trend from 2022 is the rise of Fitness & Exercise content, which became popular after the 2022 Beijing Winter Olympics and the lockdowns in China. As a result, more Chinese consumers have become interested in maintaining their health at home, which has caused a surge in notes on LRB related to athleisure clothing, home workout equipment, exercise suggestions, etc.

Notes related to Beauty remain very popular on the platform, even as the category's growth rate drops. Top keywords within this category include efficient skincare, effective skincare, gender neutral products, functional skincare and make-up, men's beauty, etc.

Number of Notes on Little Red Book in 2021



Month-on-Month Growth in Content Among First-Level Categories on Little Red Book in the 2nd Half of 2021



Source: HI-COM

Increasing Purchasing Desire & Conversion Rates

Consumer behavior on Little Red Book indicates that after product discovery, users will leave the platform to make their purchases on other platforms such as Tmall and JD. As a result, the market share of Little Red Book in-app stores is declining. However, WOM marketing on LRB has still proven to be effective at driving sales for brands through their other online sales channels, generating a positive return in investments and continued improvements in store performances.

Increased Demand for Authenticity

Content on LRB should include 'lifestyle' photos or videos that appear more natural, less commercial, and include people who look Chinese. The content should emphasize the people, the products, and the environment to build a sense of authenticity. Working with KOLs and KOCs on the platform is a key strategy for increasing brand awareness and reputation, even though costs of collaborations are rising and KOLs are becoming more saturated on the platform. Reusing content from KOLs and KOCs after permission is obtained is also highly suggested.

Testing for Success

Little Red Book has no daily posting limit, which means that there is a lot of space for testing and optimizing. Brands can test different types of posts, including professional photoshoots, more natural at-home photos, product-only pictures, graphic illustrations, etc., and determine which types of posts perform better. These same tests can be done for different keywords, although brands should also use trending or top ranked keywords within the relevant categories where possible. Through results obtained, brands can continually optimize their content.

As can be seen, despite shifts in user demographics and top categories on Little Red Book, it remains a crucial platform for brands to utilize when marketing and expanding their presence in China. When developing a strategy for LRB, brands need to keep in mind who their target audience is, how to meet their demands, and how to attract their attention on a highly competitive and increasingly saturated platform.

More Pets in Chinese Homes:
The Growing Pet Food Industry

More Pets in Chinese Homes: The Growing Pet Food Industry

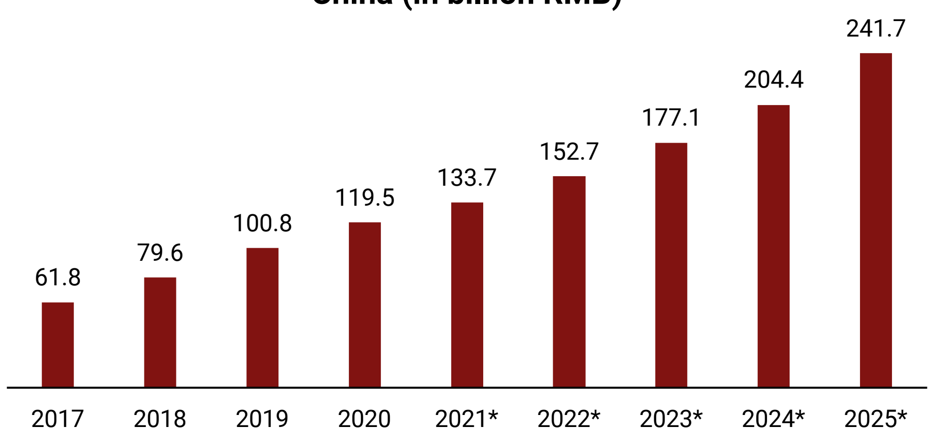
By Sandra Weiss, RedFern Digital

Driven by a desire for companionship, especially with the COVID-19 situation over the past few years, more and more Chinese consumers have opted to bring a pet into their households. One of the main drivers for the growth in pet ownership is the rising disposable income among Chinese consumers, allowing them to spend more on their pets. This has resulted in an increase of pet owners in China looking for pet products, with the largest sector being the pet food category, taking up over 50% of market value. In fact, the pet food market exceeded RMB119 billion in 2020, and is expected to double again by 2025.

Two other factors that need to be considered when it comes to the growth of pet ownership in China is the ageing population and the 'singles' trend (one-person households of single men and women) who are choosing to either not have children or start families much later in life. Both groups of people are increasingly seeking animal companionship, looking to their pets for emotional fulfillment and treating them as family members to whom they want to provide high quality and nutritious food products and snacks.

As Chinese Millennial and Gen-Z consumers enter the workforce and increase their disposable income, adopting a pet has become a symbol of financial independence. Moreover, these consumers are influenced by the Key Opinion Leaders they see on social media, who often present and encourage a lifestyle that includes a pet cat or dog.

Annual Market Revenue of the Pet Food Industry in China (in billion RMB)



Source: Statista 2022

With a rising standard of living, these consumers are becoming more concerned about health and sustainability, both for the products they consume and for the food products they provide to their pets. Therefore, pet food products that are imported, natural, or are customized according to animal type/breed, age, condition, and health, are seeing more demand.

Even though under 25% of Chinese households have pets compared to about 60% in the USA, the Chinese pet industry has become the second largest in the world, behind the USA. The relatively low pet ownership rate indicates the huge potential that the Chinese market still holds for pet brands.

Cats vs. Dogs

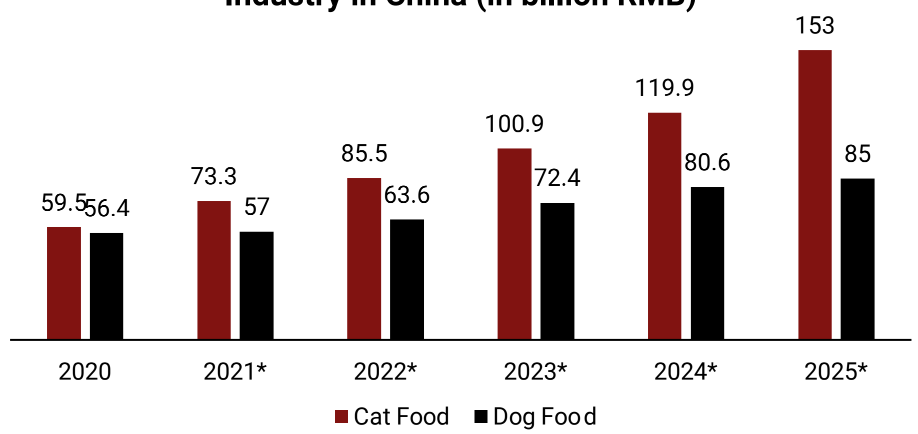
Although the animal of choice has historically been dogs, in 2021, first-time pet owners were slightly more likely to choose a cat (60%) over a dog (54%). By the end of 2021, there was an estimated 58 million pet cats and 54 million pet dogs in China, with cat ownership growing at a faster rate.

Most dog owners prefer smaller breeds, especially owners living in urban cities. Moreover, dog owners are, on average, likely to spend more on their pets compared to cat owners, with an annual average spend of RMB 2,634 and RMB 1,826, respectively.

Sales Channels for Pet Food

When it comes to sales channels, one trend that has accelerated since COVID-19 is the increased use of online channels to purchase pet products. In fact, online platforms are the main channels through which most pet owners purchase pet food and nutrition products, at 74.5% for pet food, 73.1% for pet snacks, and 64.2% for nutritional products for pets. However, offline channels such as veterinary clinics and pet stores remain important, especially for pet supplements or pet nutrition productions.

Annual Market Revenue of the Cat and Dog Food Industry in China (in billion RMB)



Source: Statista 2022

Pet Food Brands

Currently, there is fierce competition in the pet food market. Although previously dominated by multinational brands that entered early, recently, there have been a growing number of domestic brands that have gained prominence, with their focus on transparency in and quality of ingredients, in combination with competitive pricing. Some of the major players in the pet food market in China include Nestle Purina and Royal Canin, alongside Yantai China Pet Foods and Gambol's Myfoodie brand.

With that said, smaller brands have still been able to compete and expand through an emphasis on quality, safety, and specific features, such as enhancing animal lifespan, inclusion of specific nutrients, and 'natural' ingredients.

Cultural Shift and Pet Humanization

In China, there has been a cultural shift when it comes to how pets are viewed. Chinese consumers are increasingly humanizing their pets and seeing them as a valued and beloved member of the family. As a result, there is an increased willingness to spend among pet owners, causing a diversification of demand, not just for quality, but also for variety of pet food and products. Pet food products are becoming increasingly specified for pets at different ages, different sizes, with different health focuses or nutrition levels.

As can be seen, the Chinese pet industry remains a huge market for foreign pet brands, with the potential to continue increasing alongside the rate of pet ownership in China.

Top 5 Tips for Registering Your Cosmetics for General Trade in China

Hamish King, COO at Cisema

Hamish King is COO at Cisema, a China-focused CRO and regulatory consultancy founded in Munich and Beijing in 2002. A lawyer by training - admitted in Hong Kong and NSW, Australia - Hamish previously worked with UK "magic circle" firm Linklaters in Hong Kong, and has nearly 10 years' experience in the legal and regulatory fields. He has obtained the RAC and CFA qualifications. Regularly writing articles and speaking on China regulatory affairs and pathways for life sciences products, Hamish lives in Hong Kong. You can contact him at hamish.king@cisema.com.

Top 5 Tips for Registering Your Cosmetics for General Trade in China

by Hamish King, COO at Cisema

The cosmetics market in China is the world's second largest, and one of the fastest growing.[1] Imported brands dominate the high-end of the market and growing cosmetics brands cannot ignore the market potential. But the regulatory framework has recently been revised to require stricter claims testing and validation, and more and more preparation and investment is required to first achieve the regulatory requirements. This article presents the top 5 points cosmetics brands should know when registering or filing their cosmetics for general trade in China.

Tip #1: Have a clear strategy about your domestic responsible agent (DRA)

Cosmetics brands must have a local representative in China that is a Chinese entity in order to be approved for general sales. Known as the domestic responsible agent or DRA, it submits the regulatory approval and is the point-of-contact for the brand with the regulator for continuing compliance and communications.

Applicants have 3 broad options (see Figure 1):

1. Own subsidiary
2. Third-party agency service
3. Distributor

Having a company's own subsidiary is an appropriate long-term strategy but can be expensive and time-consuming to establish until volumes are large. The subsidiary must also have compliance-related staff who are up to date with regulations and can respond to regulator requests.

Selecting a distributor as DRA is the easy option, but the author cautions companies to do so only after considering fully the available options. The DRA is the entity that submits the application dossier which must contain detailed and confidential information about the products, e.g., formula and production process. This has clear intellectual property risks.

[1] *HKTDC Research, "China's Cosmetics Market" (26 Aug 2022). Found at https://research.hktdc.com/en/article/MzA4Nzg0MTgw (accessed September 2, 2022).*

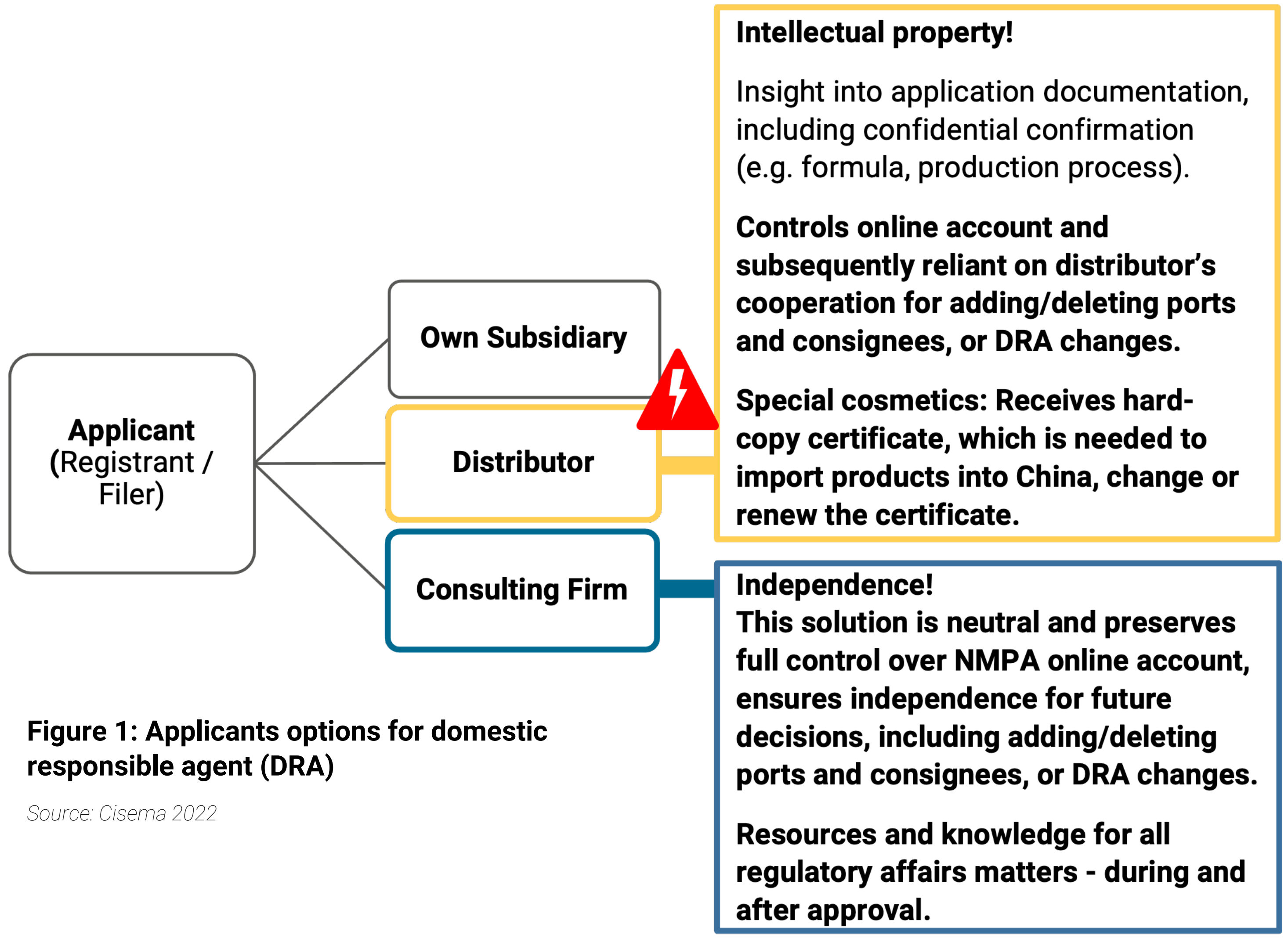


Figure 1: Applicants options for domestic responsible agent (DRA)

Source: Cisema 2022

The DRA also controls the online account which must be set up to submit the approvals, and so the applicant will continue to be wholly reliant on the distributor's continued cooperation for adding/deleting ports and consignees (especially other distributors), or to change the DRA itself.

Selecting a third-party agency service is a sensible option to retain independence and better manage IP risks. This solution is neutral and preserves full control over the NMPA online account, ensures independence for future decisions, including adding/deleting ports and consignees, or DRA changes.

Another practice point: the overarching regulator for cosmetics in China is the National Medical Products Administration or NMPA. But cosmetics filings of "general" cosmetics (see Tip #2 to understand this definition) are made to one of various provincial-level regulators called Medical Products Administration or MPA, e.g., the Beijing or Hubei MPA. To change the DRA for a cosmetic from one province to another requires that the product be cancelled by the DRA in the first province then re-registered in the second province.

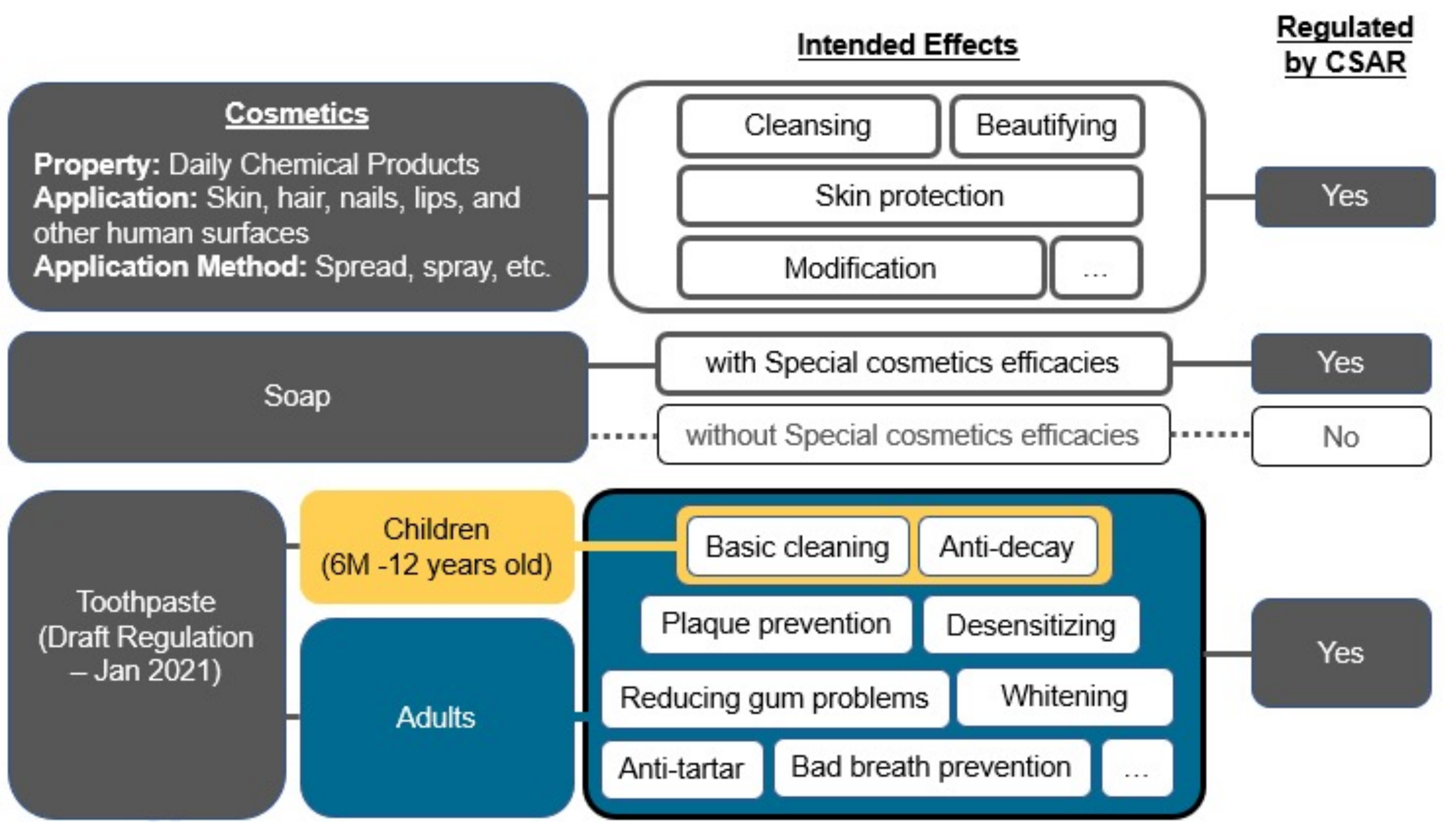
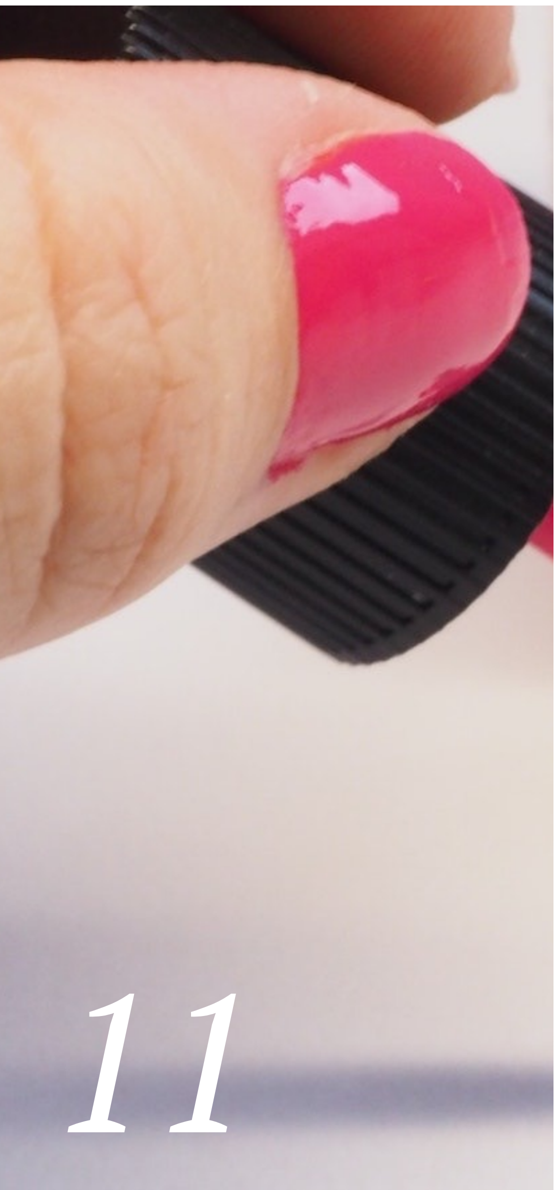


Figure 2: China regulation of cosmetics products under CSAR

Source: Cisema 2022



Tip #2: Be aware of special vs general cosmetics approval processes

Cosmetics are classified into "special" and "general" cosmetics for the purposes of approval for general trade in China.

- "General" cosmetics are cosmetics other than "special" cosmetics, including fragrances, make-up, nail cosmetics, hair care, skin care, etc.
- "Special" cosmetics include sun protection, hair dyes, hair perming, anti-hair loss, and freckle removal and whitening, and cosmetics that claim new effects.

General cosmetics go through a filing process that in the author's experience takes 3-6 months, including document preparation and sample shipment to China for local testing. Their certificates are valid indefinitely. Special cosmetics go through a registration process that takes 12-16 months in the author's experience. Special cosmetics need to be renewed every 5 years.

Baby cosmetics are not considered a separate category, however, as soon as a product targets babies or children, the cost and the timeframe for the approval tend to be higher due to stricter sample tests and application dossier requirements

From January 1, 2021 onwards, soaps with efficacy claims of "special" cosmetics are required to register as "special" cosmetics according to the CSAR and obtain a registration certificate.

According to CSAR, toothpaste is not classified as cosmetics, but it will be managed by reference to cosmetic regulations. The specific management measures are yet to be formulated by NMPA but are expected within 2022. Until then, applicants don't need to register such products and should continue to follow the existing regulations.

See Figure 2 for a summary of the relevant categories of cosmetics requiring approval under CSAR in China.

Tip #3: Be ready with documentation to avoid animal testing in China

To avoid animal testing on cosmetics products registered for general trade in the China market, companies <u>must</u> satisfy the following requirements:

1. "General" cosmetics only
2. A product safety assessment report must be submitted as part of the submission confirming the product safety.
3. A GMP (Good Manufacturing Practice) certificate or comparable certification of the quality management system of the applicant is required. Importantly, the GMP certificate must be issued by the local competent authorities of the country (region) where the manufacturers are located.

The difficult requirement is the GMP Certificate, because many companies will have such certificates issued by an industry association or third party like Intertek. This is fine for a "normal" filing but NOT if you want to avoid animal tests for your China approvals.

Another difficulty is that the competent authorities of some countries, notably USA and Australia, refuse to issue such certificates at this stage. A possible workaround is that state or even local government certificates can be used instead (e.g., the states of California and Jersey both issue GMP certificates for companies located in those states, even though the US FDA won't).

Tip #4: Know your China efficacy claim

Cosmetics registered or filed in China are now required to specify their cosmetic efficacy claim. There is a defined list, including "special" claims like whitening or sunscreen, and "general" claims like moisturizing or hair-care. Efficacies claimed will require proof in the form of human trials (if special efficacies), lab tests or literature, unless they are various basic efficacies which can be directly recognised by vision, smell and other senses (e.g., cleansing, body refreshing).[2]

Therefore, brands should be aware of their cosmetics efficacies or ask experts who can properly analyse the product packaging and formula. Making more efficacy claims will mean that filings or registrations will be more expensive, because additional proofs are required for each efficacy claim.

Tip #5: Keep up to date with changing regulatory requirements

With the implementation of China's new cosmetics framework under the Cosmetic Supervision and Administration Regulation (CSAR) in 2021, there are frequent ongoing updates and additional requirements for new filings and for products already filed. Therefore, it is important that companies continue to stay up to date with the frequently updating requirements, whether for already filed products or new to file.

A good example is the efficacy claim proof documents, referred to above in Tip #2. Whilst efficacy proof documents were only required for newly filed or registered cosmetics from 1 January 2022, already approved cosmetics will need to supplement their certificates with efficacy proof documents by 1 May 2023.

A number of service providers have regulatory news updates in English because the official updates and guidelines are only published in Chinese.[3]

In conclusion, cosmetics manufacturers must be ready to satisfy the increasingly strict China regulatory requirements in order to access the burgeoning market. But the efforts are worth it for the growing market potential, provided the initial set-up and regulatory compliance is appropriately implemented.

[2] *For the list of efficacy claims and required proofs, please contact the author.*

[3] *For instance, you can sign-up for a monthly regulatory newsletter by Cisema at www.cisema.com. Full disclosure: this is the author's company.*

Issue 7

The RED Edition

RedFern Digital is a leading full-service Digital Marketing and E-commerce agency that helps brands navigate the digital ecosystem, increase their brand awareness and convert that awareness into sales. We are responsible for the strategic direction, growth, and performance of some of the largest and most successful brands across a dynamic range of categories in the China market.

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