

## The Development Strategy of Pechoin in the New Era

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**Abstract:** With a long history inherited through centuries of business competition, Chinese time-honored brands are a symbol of traditional Chinese culture. As a witness of history, every old Chinese brand is a brand legend, but they are now gradually declining. According to the latest statistics from the Ministry of Commerce of China, only 160 out of over 1,600 “Chinese time-honored brands” have been profitable since 1993. Many time-honored brands are facing the scourge of brand decline or even extinction, with the remaining brands dying at a rate of 5% per year. In recent years, cosmetics have gradually become an inseparable part of people's daily lives with the increasing income of Chinese residents. China's broad market prospects have attracted many well-known international brands, while many well-known old Chinese brands have been eclipsed in this increasingly fierce market competition. As the saying goes, “An outsider, however strong, should always respect the locals,” foreign brands have overcome the inherent competitive disadvantages of systems, cultural regions, and the like. In contrast, domestic brands have continued to decline under local advantages, the reasons of which are worth discussing. This article uses Pechoin as an example to explore the development strategies of traditional old brands in the new era and explores the causes of the brand's resurgence in terms of brand innovation and marketing strategy. Its current problems are discussed to provide a way for other traditional brands to rejuvenate.

**Keywords:** Pechoin; Brand innovation; Marketing strategy; Brand repositioning, Development strategy.

### 1. Research Background and Significance

#### 1.1 Research Background

In recent years, the increased consumption of cosmetics by the Chinese has expanded the scale of China's cosmetics market and maintained its relatively rapid growth. According to China's National Bureau of Statistics, sales of cosmetics above designated size in China's wholesale and retail industries increased from 162.5 billion to 299.2 billion yuan from 2013 to 2019. With an increasing rate of 14.24% per year, cosmetics ranks second in China's national consumer goods category. According to Euromonitor's statistics, China's cosmetics market reached 210.2 billion yuan in 2018, second only to the United States. This accounts for 12.7% of the global market share. While its market scale is lower than that of the United States, its compound annual growth rate is higher at 9.9%. China may be the world's second-largest market for cosmetics, but it ranks first in terms of market scale growth.

China's broad market prospects and a huge growth space have attracted many well-known international brands, increasing competition and intensifying pressure in the Chinese cosmetics industry. While Shanghai Shangmei, Pechoin, and Galan Group are among the top ten domestic companies of China's cosmetics industry market share in 2018, their combined market share is incomparable to that of P&G's or L'Oreal's (see Figure 1). Regardless of market size or sales profit, there is a huge gap between domestic companies and international cosmetic giants. To base themselves on the markets, well-established enterprises have been prioritizing improving their competitiveness and formulating suitable development plans.

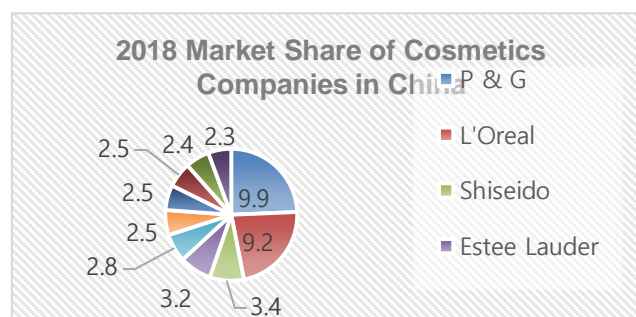


Figure 1. 2018 Market Share of Cosmetics Companies in China

Source: Public Data Collection

### 1.2 Significance of the Study

The distinct regional cultural characteristics, stereotyped historical traces, and family inherited management methods of old time-honored brands can cause problems such as product aging and strong brand regionality. Many well-established enterprises do not pay attention to marketing strategies like promotions, and still use the traditional notion of “wine is not afraid of deep alleys” to measure the current market environment. Outdated methods of promotion coupled with the product's routine have a negative impact on brand influence.

Brand innovation is the only way to develop the cosmetics industry. The development of new media platforms has given old brands the opportunity to reestablish themselves in the market and rejuvenate. In order to provide traditional brands with independent intellectual property rights and unique skills to accelerate innovation and development, China's Ministry of Commerce implemented the “Revitalization of Old Brands Project” on April 2006. The revitalization of established brands has since become part of the country's macroeconomic development plan.

In this study, we consider Pechoin as an example of a time-honored brand. For five consecutive years, it was the sales champion of beauty in Taobao's Double 11 promotion (see Figure 2). In 2019, it became the leader of domestic beauty brands with sales of 856 million yuan in the Double 11 event. The rise of Pechoin is not only a sign of the revival of well-established brands, but is also a reflection of China's economic growth. Revitalizing China's well-established brands not only promotes the development of national enterprises and expands consumer demand, but it also has far-reaching significance in promoting Chinese culture and enhancing its soft power.

In this paper, we focus on the rebirth strategy of Pechoin against the backdrop of new media. This paper analyzes the brand's innovation and marketing strategy before summarizing its current shortcomings and improvement measures. We hope that our findings could promote the rebranding and revitalization of other well-established brands to help them achieve sustainable development.



Figure 2. 2015-2018 Annual Retail Sales (100 million yuan)

Source: Public Data Collection

## 2. Research Theory

### 2.1 Brand Repositioning Theory

The brand repositioning theory was proposed by Jack Trout, the “father of positioning,” and Al Ries. It aims to help brands overcome difficulties and enable them to grow and gain vitality. While it does not oppose the initial positioning of the brand, it abandons the original brand strategy after the company has been tempered by the market.

The brand positioning of traditional time-honored brands usually faces issues of obsolescence, ambiguity, and outdated publicity. For traditional brands that need to adapt to changes in the social environment to survive and develop, brand repositioning is key to helping them achieve long-term development. Along-term constant brand image can cause consumers to experience aesthetic fatigue, making the brand lose its freshness. Therefore, new content must be added at appropriate times to enrich the brand's connotation and personality. Many old brands without clear positioning and target markets are gradually declining because consumers become confused about

the brand's characteristics. Consider Volvo Cars as an example. When a customer buys a Volvo, its reputation of quality and performance lets buyers perceive the brand's attribute of "safety." Recognizing consumer misconceptions about a brand and taking effective countermeasures to address unclear positioning is a priority of time-honored brands.

## **2.2 Brand Core Value**

The core value of a brand is an essential part of brand creation and remodeling strategy, which determines the direction of brand image establishment and brand design promotion. It also builds the brand's interaction with consumers. A lack of core values and cultural brand promotion strategies can make the brand's core concept appear vague to consumers. In this way, the brand only has visibility and no customer loyalty, which will directly manifest once advertising has stopped, and sales immediately decline.

## **2.3 Multi-Brand Strategy**

Multi-brand strategy refers to the use of different independent brands in the same product category according to market segments. This helps companies expand market share and reduce operating risks, which are conducive to their adoption of price grading strategies. Different market positions can target various consumer groups. Meanwhile, different customer groups can effectively reduce mutual consumption between brands.

Taking Pechoin as an example, the company currently owns four major brands and six series, which targets consumers of all ages. The availability of products that correspond to the different needs of consumers from various age groups is conducive to customer growth and seizes market share. However, the multi-brand method is a double-edged sword because each brand needs to be effectively managed, therefore increasing costs. Furthermore, internal competition between different brands may cause friction and increase the difficulty of management.

## **3. Development History of Pechoin**

Pechoin, formerly known as Fubeikang Cosmetics Co., Ltd., is a professional manufacturer of cosmetics founded in 1931, which has been integrating research, development, production, sales, and service for more than 80 years. It is one of the long-established cosmetics brands in China. Pechoin was developed in four stages:

### **3.1 Birth Phase (1930-40s)**

Fubeikang Cosmetics Co., Ltd. launched the first "Pechoin Balm" in 1940. Since its birth, it has been sought after by celebrities such as Ruan Lingyu, Zhou Xuan, Hu Die, and others like Song's three sisters. It became the skincare brand for social celebrities, leading the fashion trend at that time.

By 1949, Pechoin's products spread all over the country, from Harbin in the north to Hong Kong in the south, to Qinghai in the west. They were even exported to Southeast Asian countries. Pechoin is well-known in the world with its reputation for oriental beauty and has become the first choice of skincare products for ladies and aristocrats.

### **3.2 Heyday (1980s)**

Since the 1980s, Pechoin has continuously introduced new products in research and development. It took the leap from the protection function and pioneered the domestic new concept of "care and nourishment" skincare. The customer-oriented business also shifted from elite aristocrats to consumers of all ages. It became popular all over the country after the launch of its Pechoin and Phoenix product lines.

### **3.3 Troughs and Decay (1990s)**

During the development of the economic globalization in the early the 1990s, many well-known foreign skincare brands such as Estee Lauder, Snowflake, and Shiseido flooded the domestic market and quickly gained popularity. Pechoin, which used to be the exclusive partner of foreign-invested daily chemical companies, failed to gain a foothold in the big-name cosmetics market and gradually declined.

### **3.4 Brand Transformation and Revival (2000 to Present)**

In 2000, Pechoin began transforming its brand. It established an "herbal workshop," and developed its "herbal essence" product series in 2006. In 2009, Pechoin established the Hanfang Materia Medica Research Institute before launching the products from its Pechoin Herbal Water "Nen Bixian" series in 2010. Many advertisements were released online and offline activities were also conducted to promote the new products. In 2011, Pechoin was fully exposed to the Internet and strategically partnered with network platforms such as Tmall, Amazon,

Dangdang, Lefeng, and JD.com. In the Double 11 event of 2012, the transaction volume of Pechoin on Tmall and Taobao was 19.1 billion, with a year-on-year growth of 260%. By 2018, its annual retail sales reached 23.01 billion yuan and its performance increased by more than 30%. In 2019, its Double 11 sales reached 856 million yuan, and it was the champion of beauty sales in Taobao's Double 11 promotion for five consecutive years.

#### **4. Brand Innovation of Pechoin**

##### **4.1 Innovation on Brand Positioning: Be Youthful**

Brand positioning is the best way to shape the characteristics of a brand, and clearly defining it can guide the development of an enterprise. Pechoin repeats the new positioning method and builds a strong association between its new attributes and its brand name in the consumer's memory. In the current era of new media on the Internet, most well-established brands are too conservative in advertising. Minimal interaction with target consumers results in low brand participation and difficulty in stimulating consumers to establish associations.

Pechoin was able to seize an opportunity in the cosmetics market when it repositioned its brand, making it rise once again. Nowadays, packaging that expresses the history of a product has become obsolete. For example, the dark blue tin box packaging with its design of colorful birds represents a memory of the old generation of Pechoin. The original brand positioning did not adapt to the development requirements and was not favored by young people. Therefore, Pechoin chose the brand repositioning method to change the public's impression that it is "outdated" and "inflexible," and have the brand be recognized again.

Since 2010, Mo Wenwei has been appointed as the spokesperson to promote the herbal skincare series, which has increased brand attention and attracted more consumers. Since then, Li Bingbing, Jay Chou, and White Lily have also endorsed Pechoin, attracting consumers of the eighties and nineties generations. In 2018, the television program "Idol Trainee" became popular all over the country. Pechoin closely followed this popular wave and cooperated with the idol group, ONER, to develop the market among those born after 1995.

##### **4.2 Innovation on Packaging Concept: Personalization**

In 2008, Pechoin repositioned the "herbal skin care" series of skin care products. In order to highlight this feature, it added traditional elements to all aspects of the product. For example, the packaging was changed from plastic bottles to glass bottles. The green color of the packaging represents natural herbs, and the design of the "Tianyuan Place" reflects "Eastern Beauty." The new packaging of the "Tianyuan Place Bottle" series won the Gold Award during the ROI Festival.

For young consumers, the pursuit of quality and personality expression has become an important trend. In 2012, Pechoin launched the "SANSEN" series. The hand painting of the cheongsam girl combined the nostalgic and retro styles of ancient China. Moreover, elements were taken from the movie "To the Sky Kingdom," which came out in the same period, to cater to the aesthetic taste of young people. In 2013, Pechoin was presented to the Tanzanian Women and Development Foundation as a "national gift" by the First Lady Peng Liyuan. The red customized gift box that incorporated traditional Chinese elements set off a "national goods fever" in China. As a result, the sales of Pechoin sharply increased throughout the year.

##### **4.3 Innovation on Promotion: Cross-Border Cooperation**

In the process of brand repositioning, Pechoin has firmly grasped consumer psychology and carried out a series of cross-border cooperation of brands to be more visible to young users. For example, it received the second naming rights from the second season of "Good Voice of China" in 2012, and used the advertising slogan "Travel of Pechoin Herbal Music" to repeatedly implant in the program to deepen the audience's impression. In 2015, Pechoin was awarded the exclusive rights to the fourth season of "Good Voice of China." It also became the chief special guest of "Happy Camp," expanding its brand influence through entertainment marketing. In the same year, it collaborated with the official magazine, Weibo of the Natural History Magazine, to release a series of posters of "Flower YOUNG Hundred Out." The poster adopted a fresh and elegant style and combined this with the product philosophy of "natural herbs."

#### **5. Marketing Strategy**

##### **5.1 Marketing Based on Product Features**

Pechoin promotes the use of natural herbs in its products because consumers are paying more attention to the harmfulness of chemical raw materials on the skin and the safety of skin care products. The advertising phrase "Pechoin herbs, natural and not irritating" caters to the psychology of consumers. The catchy slogan is more grounded and straightforward, which is conducive to deepening consumers' impressions.

## 5.2 Marketing Based on Customer Type

After the market position of Pechoin changed, the middle-aged and elderly no longer serve as the brand's main consumer groups, and research and development was focused on products that younger people love. This rejuvenation strategy achieved remarkable results. By 2018, the annual retail sales of Pechoin reached 23.01 billion yuan and performance growth exceeded 30%.

Each series of Pechoin's products has certain differences. At present, Pechoin has many product series such as "Sansen," "Hello Happiness," "Flavor," "Bluemyth," "Pechoin Herbal," "Pechoin Classic," and "Pechoin Men," among others. Table 1 shows the current product series sold by Pechoin. All of them were developed for the needs of consumer groups covering all ages. Each series has its own brand story, star products, and brand information. In addition, the multi-brand strategy helps consumers clearly choose the direction. Once a new product is launched, they can quickly rely on the initial loyalty of consumers to enter the market and reduce publicity costs.

**Table 1. Pechoin Series**

Series	Target	Features
Sansen	90s, Petty bourgeoisie	Hand cream, mask, make-up
Hello Happiness	Students	Moisturizing mask
Flavor	High-end consumers	Anti-aging
Bluemyth	High-end consumers	Deep moisturizing
Pechoin Herbal	Young office workers	Oil control and acne control
Pechoin Classic	All ages	Good quality and low price
Pechoin Men	Males	Oil control and moisturization

Source: public data collection

## 5.3 Marketing Based on Sales Channels

① Supermarket: In 2008, Pechoin chose the popularization of civilian to avoid market competition. Its sales channels were found in supermarkets instead of counters. The selling price of a bottle of lotion was only 30 yuan, which is less than one-third of the price of an Olay product. With no investment in advertising and marketing, Pechoin wanted to use a pricing strategy to overthrow other brands. However, this only resulted to monthly sales of 10,000 yuan from each Wal-Mart store. Therefore, Pechoin's channel terminal strategy was changed to hiring promoters in 2012. It developed a set of incentive policies for shopping guides, such as adding rewards apart from sales commissions. In order to make the incentives more intuitive, it printed the reward amount on stickers. Pechoin's annual retail sales from supermarkets contributed 70% to its total sales.

② E-commerce: E-commerce platforms are one of Pechoin's main strategic channels. They mainly include Taobao, Tmall, JD.com, Pinduoduo, Vipshop, Suning.com. Pechoin deployed its products in e-commerce channels before other local brands when it launched its flagship store on Taobao in January 2010. It has maintained its number one position in the field of e-commerce skin care products, and has had remarkable achievements in the past five years.

③ WeChat: In 2014, Pechoin entered the WeChat-commerce industry, opening up WeChat-commerce channels with its "Qiyun" series of products exclusively for distributors.

④ Customer Satisfaction (CS): In 2016, Pechoin officially entered the CS channel. The following year, the "Qinqian herb" series specially created for this channel was launched. Since then, the CS channel and category layout have continuously improved. Presently, Pechoin has nearly 20,000 outlets across the country, becoming one of the most widely-covered CS channels. In existing marketing channels, the supermarket and CS channel agents are managed separately, and the goods are also separated in order to avoid competition and internal friction between channels.

## 5.4 Marketing Based on Company Culture

Over the years, Pechoin has cooperated with a number of public welfare organizations to carry out activities such as disease assistance, disaster relief, health education, and environmental protection. Table 2 shows the list of public activities conducted by Pechoin. During the coronavirus outbreak, Pechoin donated a total of 200 million yuan worth of hand sanitizers, hand creams, shampoos, and other sanitary care products to Wuhan.

Positive brand behavior will inevitably affect consumers' brand sentiment and ultimately, their purchasing behavior. When the cultural concept embodied by Pechoin in public welfare activities is recognized by consumers, they will naturally have a good impression of the brand. Public welfare activities are more conducive to

promoting brand culture from the inside out, forming a unique image of the brand, and increasing product value and customer stickiness, thus improving the company's operating performance. Brand culture is also a reflection of soft power.

**Table 2. List of Public Activities by Pechoin**

Time	Partner	Theme
2011	China Youth Development Foundation	Start the "YongquanXiangbao" charity event
2012	China STD and AIDS Prevention Association	Donate 12 million yuan to promote AIDS prevention
2012	Hangzhou NetCreat	Start the "Amber" plan to inherit the intangible cultural heritage
2016	China Children and Charities Foundation	Donate to rural children's serious illness medical insurance project
2017	Earthquake-stricken area in Jiuzhaigou, Sichuan	Donate 5 million yuan to help reconstruction after the earthquake

Source: public data collection

## 6. Existing Problems

### 6.1 Insufficient Brand Recognition

The local competitors of Pechoin consist of Suitable Herbs, Herborist, Meijijiang, and Natural Hall. These local brands are very similar to Pechoin in terms of brand positioning and value proposition. They also highlight the "herbal" and "natural" elements of their products. The distinction between these brands is very low, resulting in blurred consumer brand impressions. When faced with similar product information, it is difficult for customers to quickly make a purchase decision. Therefore, the appeal for differentiation should be emphasized in advertising and marketing to create a more recognizable brand image. Hence, Pechoin should accurately locate product functions, improve brand recognition, and distinguish itself from other similar products.

### 6.2 Limited Product Differences and Overlapping Functions

Although Pechoin currently has six series and more than 100 kinds of products, the unclear positioning of each series and overlapping functions of products make it difficult for consumers to choose. For example, the water series can be divided into water soft series, water pure series, and water energy series. Apart from different prices, the three sub-series have minimal differences in appearance and efficacy, which undoubtedly increases the difficulty of customers in choosing products.

Currently, only the "herbal" and "SANSHEN" series are well-known in the market, while others have low product visibility. Moreover, there is still a gap between some products and the elegant and fresh brand positioning. Therefore, Pechoin still needs to increase investment in product research to improve quality. Marketing without a foundation for quality is destined to be a castle in the sky.

### 6.3 Lack of Novel Design

The packaging color of Pechoin's products is green, but social aesthetics now advocate diversified development. The new generation of young consumers prefer innovative products that can showcase their own personalities. Further improving the packaging design to make each series of products more distinct could increase differentiation, creating a sense of freshness and stimulating consumers' desires to purchase. The outer packaging of many of Pechoin's star products can be designed using different kinds of traditional styles, focusing on the promotion of national culture. The bundling with Guofeng helps to enhance brand image and achieve sales growth.

## 7. Acknowledgment

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## 8. Conclusion

As a well-established domestic skin care brand, Pechoin has both the advantages of high brand awareness and good brand reputation, and the disadvantages of small market share, small product audience, and fierce market competition. In view of the market environment that the brand is facing at this stage, the author proposes the

following suggestions.

First, Pechoin can strengthen its promotional efforts, expand the mid-to-high-end market, and select high-income women with consumption ability in first-, second-, and third-tier cities as the target market. By cultivating high-loyalty and high-quality customers by enhancing customer experience, research, and development of private customized products, product profitability can be improved.

Second, Pechoin should regularly upgrade product design to research and develop unique new products. Product quality should be enhanced to improve the overall level of Pechoin's products, thereby forming market advantages and product reputation. This can promote the continuous expansion of the consumer group of the full range of products, expand market share, and improve sales performance.

The revival of a time-honored brand is a long-term process. In the case of many powerful foreign-funded enterprises entering the Chinese market, many traditional enterprises are faced with the risk of being eliminated in the market. In essence, being content with the status of one's brand amidst market competition will inevitably make it lose opportunities in the marketization process. Time-honored brands need to be guided by its market demand and consumers, and actively participate in market competition to find new opportunities for sustainable development in the new era.

This paper analyzes the classic Chinese brand, Pechoin. It then concludes some of the problems existing in their current business strategy by analyzing the current industry market environment and the actual status of Pechoin. Moreover, suggestions for improvement are presented. Because of the limited ability of the author and limitations of objective conditions, the analysis of existing problems is not comprehensive, and there are many areas of the research that need to be further improved on in the future.

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