



Impact of consumption tax reform on cosmetics, hair care and skin care products

Aiming to narrow the gap between the rich and the poor, a major consumption tax reform in China took effect on 1 April 2006. This paper reviews the initial impacts of the consumption tax adjustments on cosmetics, hair care and skin care products.

Consumption tax adjustments on cosmetics, skin care and hair care products

In 1994, China first imposed consumption tax on certain products, including cosmetics, skin care and hair care products. The consumption tax rate of cosmetics and fragrances were 30%, while it was 8% for skin care and hair care products.

The recent adjustment in April this year has scrapped the consumption tax on both skin care (excluding the high-end products) and hair care products, which are now no longer regarded as luxuries but daily necessities. The elimination of consumption tax on such products aims to alleviate the burden on mass consumers by reducing the consumption tax levied on the mass products.

In contrast, the high-end skin care products are now taxed at the same rate as cosmetics, which is 30%. This move aims at taxing the luxury goods consumers. However, details of the new rates (which could be from the original 8% to 30%) and the definition of high-end skin care products are not yet announced. All market players are now closely watching the latest development and waiting for the details of actual implementation.

Impacts on mass hair care and skin care products

The elimination of the consumption tax apparently does not bring any significant price reduction. Indeed, claiming that the profit margin is already slim amid fierce competition and raw material price hikes, many companies see the adjustment as a chance for them to ease their mounting price pressure.

International brands such as P&G and Unilever currently have no plans to adjust the prices of their mass products in China. Domestic brands like Sunrana, Ddou, Herborist and Cortry also keep a wait-and-see attitude and prefer to use the tax savings to improve their product portfolio and provide more value-added services, hoping to shift away from price competition.

Mininurse, a brand of L'Oreal, is the few to drop the prices. The price of its cleansing milk product was lowered by 20% to 9.9 yuan in May. Domestic brand Dabao is also considering a price drop for some of its products.

Impacts on high-end skin care products

The details of the new rates and definition of high-end products (say, defined by price or by price per volume) are still unknown. But market players generally believe that the new rate could be up to 30%.

Before the details are announced, many high-end players have already adjusted their price by slow steps to minimize the potential shocks of one-off increase and retain the less loyal consumers, despite the fact that the impact of price increase may not be so strong as the Chinese consumers for luxury products are usually more brand loyal and less price-sensitive.

By way of illustration, M.A.C has raised the retail prices of its nail polish, powder foundation, and eye care products by 10 to 20 yuan; Y.S.L has the prices of its fragrances increased by 15-125 yuan; Estée Lauder also increased the price of one of its skin care essences by 10% to 2,300 yuan. The biggest price increase is seen for HR, which has the price of one of its star skin care products jumped from 880 to 1,280 yuan.

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