Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Management

Diploma Thesis

Czech customer's purchasing behaviour at the market of cosmetics

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Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Martina Ropická

Economics and Management

Thesis title

Czech customer´s purchasing behaviour at the market of cosmetics

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Objectives of thesis

The aim is to evaluate customer´s purchasing behaviour at the market of the given enterprise. Based on the evaluation, relevant conclusions about customer´s behaviour and suggestions for the marketing communication of a given enterprise are drawn.

Methodology

The thesis consists of two parts. First part deals with elementary theoretical overview. It deals with theory of customer, customer´s behaviour, marketing, marketing communication and its evaluation. The review is based on information gained from study and comparison of relevant resources. The fundamental, empiric part is focused on customers of a particular enterprise. Data for the empiric part are gained using chosen data collection technique. Based on the research, the relevant conclusions of the thesis are drawn.

The proposed extent of the thesis

60 – 80 pages

Keywords

Customer, Customer´s behaviour, Marketing, Marketing communication, global market, cosmetics

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Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled "Czech customer's purchasing behaviour at the market of cosmetics" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any third person.

In Prague on ________________ ________________________

Martina Ropická

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I would like to thank Ing. Tereza Balcarová, Ph.D., Brand manager of Douglas Mrs. Hana Vaňatková, Brand manager of RBR Kateřina Šorfová, Beauty ambassador of Guerlain Mrs. Barbora Bezděková, Professor William Cohn and all other persons, for their advice and support during my work on this thesis.

Nákupní chování Českého zákazníka na trhu kosmetiky

Czech customer's purchasing behaviour at the market of cosmetics

Souhrn

Cílem práce bylo charakterizovat nákupní chování Českého zákazníka na trhu kosmetiky. Nejprve jsem si určili cíle práce a hypotézy, které chceme v praktické části zjišťovat a určili jsme si metody, podle kterých chceme analýzu provádět. V teoretické části jsou objasněné pojmy a metody, které byly v práci použity a jejich spojení v kontextu s kosmetickým průmyslem. Následuje investigativní část práce, kde charakterizujeme kosmetický průmysl a jeho hlavní hráče na Českém trhu. Anketa, která je součástí praktické části, je sestavena z odpovědí 180 respondentů, kteří představují vzorek populace na jehož základě vyhodnotíme nákupní chování na trhu kosmetiky a jejich postoje ke kosmetickému průmyslu jako takovému. Výsledkem bude syntéza zjištění z ankety a investigativní části hlavních hráčů na Českém kosmetickém trhu.

Summary

The goal of a thesis was to characterize Czech customer's behavior at the market of cosmetics. Fist of all, the aims and methodology were determined. The findings were made, as where the methods upon which the investigation is based. Secondly, in the theoretical part is an explanation of the concepts and methods that were used in this study in order to understand their connection with the cosmetic industry. Thirdly, a practical part was made in order to describe the cosmetic industry, major players on the Czech market and their evaluation. A survey as a part of practical part was compiled from the responses of 180 respondents who represent a sample of customers on the basis of which we evaluate a customer's purchasing behavior at the market of cosmetics and customer's attitudes to the cosmetic industry. The result is a synthesis of outcomes from the survey and an investigative part of the major players on the Czech cosmetic market.

Klíčová slova: Zákazník, Chování zákazníka na trhu, Marketing, Marketingová komunikace, Kosmetický průmysl, Kosmetický průmysl na Českém trhu, Anketa, Porterova analýza, Branding, Pozice společnosti na trhu.

Keywords: Customer, Customer's behavior, Marketing, Marketing communication, Cosmetics industry, Czech market of cosmetics, Survey, Porter's analysis, Company positioning, Branding.

Table of Contents

1. Introduction

The main purpose of this study is to analyze the characteristics of purchasing behavior of Czech customers on the market of Cosmetics. The reason why I chose this topic is because of my long interest in the cosmetic industry, my work as a Make-up artist for a brand, and in the future my interest to work in this industry. The outcomes of this study should also serve for broadening the horizons and visions of the industry.

The Cosmetic Industry is a huge money making business, which during recent decades has gained increasing importance for customers. In total revenues the global cosmetics market reached USD 379 billion in 2013, and every year is increasing. In 2017 the expected revenue is USD 461 billion. [39] The cosmetic products are becoming an increasingly necessary component of the consumer. [14]

As in other industries, each continent, country, or region cosmetic industry has its own specifics and characteristics. The main focus of this study will be concentrated on the Czech market and its customers. The Czech customer has its own preferences, tastes, and characteristics to which producers and dealers have to appeal.

The study is divided into four main parts – Theoretical, Analytical, Survey and Conclusion. Additional parts are the List of Selected Resources and Appendices. The first Theoretical part explains the management and marketing concepts and analyses, which were used in the Analytical part. The objective of the theoretical part is to understand the topics and methods, which have been used. The second Analytical part is the investigative part of a study. The first section illustrates the global cosmetic industry, the EU market, and the Czech market. It determines the main characteristics, statistics, trends, development and indicators, which influence the industry. For our main focus – the Czech Republic market, we create Porters analysis. The second section describes major players on the Czech cosmetic market, compares them according to key success factors, evaluates them and determines their pros and cons. The Survey was researched in the format of a questionnaire. The answers consist of 180 respondents – of different age groups. The point was to discover the customer's relationship to cosmetics, investigation of indicators, which influence their purchasing behavior, their habits, preferred distribution channels, brands, ability to invest for products, or their position to the advertisement in cosmetics. Thus follows an evaluation of the survey and its synthesis with an analytical part and the pointed aims of the study - evaluation of the main cosmetic players on the Czech market, specifics and characteristics of customer's purchasing behavior on cosmetic market, trends and indicators that influence customer's purchasing decision. The Recommendation should serve for producers and retailers of cosmetics to know what the customer would like to have and what is the best way to attract him or her.

In Conclusion, the outcome of the study is the characteristics of the Czech customer's behavior on the market of cosmetics and the characteristics of the Czech cosmetics market and its potential as a whole.

2. Aims of Diploma Thesis and Methodology

This chapter describes the main aims of study and methodological tools, which has been used.

2.1 Aims of Diploma Thesis

First of all, major players on the Czech cosmetic market have to be determined, along with their role on the market. Their comparisons according to which the key success factors (which are determined) and it is evaluated which of the factors they should improve and which of the factors are their benefits.

1. Evaluation of the main cosmetic players on Czech market.

1a - RQ: Who has the strongest position on the Czech market?

1b - RQ: What are pros and cons of each competitor?

Second of all, research will be conducted (provided) to find specifics in purchasing behavior of Czech customers; how is their perceiving of the four biggest competitors on the Czech cosmetic market, the ability to spend for cosmetics, what is their relationship to cosmetics (and if there is some relationship) and which way they prefer when they are buying cosmetics products.

2. Find what are specifics in purchasing behavior of Czech customer.

2a - RQ: How the biggest players in cosmetics (Sephora, Douglas, Marionnaud, Fann) stand with respect to the customer's preference?

2b - RQ: Is there a relationship between older age and purchase of prestige cosmetics?

2c - RQ: Are there differences in spending on cosmetics by type of a product?

2d - RQ: Which distribution channels are preferred?

Finally will be determined trends and indicators that influence a customer's purchasing decision, whether a customer buys a product or not, or according to which indicators he searches for a certain type of a product or brand.

3. Determine trends and indicators that influence customer's purchasing decision.

3a - RQ: What influence customer's decision for purchase?

2.2 Methodology

At the beginning there are explanations of theoretical concepts from management and marketing for understanding the whole study and its relation to cosmetic industry; and explanation of methods, which were used in analytical part. First of all explaining concepts like Branding or Marketing communication is important to know in relation to cosmetic industry. The Mass x Prestige production is important for understanding the main division of cosmetics products, according to companies implement different marketing, or price strategies on the market. Exclusive distribution is an often-used term in the study and Porters five analyses were used for analyses of the cosmetic industry on the Czech market.

In the analytical part the first section is a determination of the cosmetic market, what are its indicators, influences or trends. It summarizes the cosmetic industry as a part of a global market, the EU market, and the Czech market, and its characteristics and specifics with support of statistics and graphs. Part of this section will be Porter's analysis of the Czech cosmetic market, to discover attractiveness of the industry. In the second section, is an introduction of the main cosmetic players on the Czech market – Douglas, Sephora, Marionnaud and Fann. The main focus will be on Douglas, because there was given background information from its Brand manager, Mrs. Hana Vanatkova. Therefore Douglas and its competitors will be compared and evaluated in Competitive positioning analysis based on key success factors, which are identified as the main indicators for evaluation. The goal of the research will be evaluation of Douglas, its strong and weak sides, its threats and opportunities; an evaluation of Douglas's competitors; and an overview of indicators that can be improved. From this outcome we should determine the strongest player on Czech cosmetic market. The investigative part survey, which will be in the form of a questionnaire, sent to 180 respondents through social media, or directly in printed form. The evaluation of the questionnaire should answer on aims that we have set – evaluation of the main cosmetic players on Czech market, specifics and characteristics of customer's purchasing behavior on the cosmetic market, trends and indicators that influence customer's purchasing decision. In addition, this section describes the Czech market and its potential. The synthesis of the analytical part and survey will define the typical Czech customer on the market of cosmetics and his behavior in terms of purchasing cosmetic products. The final conclusion and recommendations will be for anyone who moves in the beauty business or is interested in cosmetics.

The methodological tools, which has been used are:

1. Literature – For explaining concepts from the marketing and management field like branding, marketing communication, mass x prestige production, Porters five analysis, customer behavior or cosmetic industry. The Literature review included 15 book resources.

2. Web synthesis – For completion of theoretical concepts, statistical data about cosmetics industry or facts about cosmetic industry.

3. Marketing researches – Researches that were focused on cosmetics analysis, analysis of customer behavior on certain markets, factors influences cosmetic industry.

4. Annual reports of perfumeries Sephora, Fann and Marionnaud. It will serve for information about revenues for the year 2013/2014, trade margin for the year 2013/2014, analyses of membership, exclusive brands, number of stores, changes in management, or other changes.

5. Interviews with experts in field. The first of them was a Make-up artist and Beauty ambassador of Guerlain, Barbora Bezdekova. Barbora has a long experience in the cosmetic industry, she worked as a director in M.A.C store, now she works as a main Make-up artist for Guerlain, where thanks to that she flows in all perfumeries – Sephora, Douglas, Marionnaud, Fann. The areas which I asked about were the philosophy of perfumeries, their strategies, company environment, price strategy, type of customers who purchase in different perfumeries. The interview was done on 02/01/2016 and it took about an hour and a half. The second respondent was the Brand manager of Rouge Bunny Rouge for Czech Republic, Katerina Sorfova. The areas of the questions were about the philosophy of brand, its position on market, sales strategy, customer target, promotion of a brand, and the relationship with Douglas perfumery and future plans. The interview was on 02/02/2016 and it took about one hour. The third respondent, the Brand specialist of Douglas in Czech Republic, Hana Vanatkova, was interviewed 24/02/2016 and it took about an hour plus some of the questions as a supplement were sent by email. The questions were about market share of Douglas, additional input of Douglas in comparison to its competitors, brands and its setting conditions, future plan, reaching of customers, operating management, and marketing strategy.

6. Company positioning of Douglas to its competitors – Identification of key success factors: number of stores, market share, reputation of the brands, diversity of product portfolio, skilled workforce, design of shop, number of exclusive brands, membership, trade margin, revenues and price per chosen indicators. The evaluation was pointed from 1(poor) to 5(excellent), the explanation is in **Appendix 10.** Secondly, identify external factors (opportunities, threats) and internal factors (strengths, weaknesses).

7. Survey – it was own research in form of questionnaire. Respondents were male or female in divided age groups from 18 to 60 and over years old. The questionnaire was in two versions – Czech and English, and it was sent online through social media like Facebook or email, or distributed in written form in offices. The number of final respondents was 180. The questions in the questionnaire were both open ended and closed. The areas of question were about respondent's preference of cosmetics in different categories (skincare, make-up, hair care, body care, perfumes), what brands he prefers, what distribution channels he prefers, what kind of perfumery he prefers and why, or ability to spend for cosmetics. The whole questionnaire is in **Appendix 1**. The goal of the Questionnaire was to determine: what distribution channels Czech customers prefer, how much they are able to invest in category of make-up, skincare and hair care; if there are products in which they are able invest more than for others; which perfumery they prefer and why, their relationship to cosmetics, investigation of indicators, which influence their purchasing behavior, habits, or their position to the commercial. The results and evaluation of the questionnaire provide support for the conclusion, where the outcome is the characteristics of a Czech customer's behavior on the market of cosmetics and the characteristics of the Czech cosmetic market as a whole.

3. Theoretical part

For understanding the Diploma Thesis content, it has to be explained marketing and management theory concepts and analyses, which have been used in analytical part. All the concepts are necessary for understanding their connection with cosmetic industry.

3.1 Branding

For understand branding, we have to specify what brands are. “A brand is the idea or image of a specific product or service that consumers connect with, by identifying the name, logo, slogan, or design of the company who owns the idea or image. Branding is when that idea or image is marketed so that it is recognizable by more and more people, and identified with a certain service or product when there are many other companies offering the same service or product. Advertising professionals work on branding not only to build brand recognition, but also to build good reputations and a set of standards to which the company should strive to maintain or surpass. Its not just about getting your target market, but also getting prospects to see company as the sole provider of a solution to customer’s problems or needs.

Branding serves as segmentation of the market. Existence of brand helps to connect distribution and manipulation with products.

Trademark is legal protection against copyrighting.

Branding is an important part of Internet commerce, as branding allows companies to build their reputations as well as expand beyond the original product and service, and adds to the revenue generated by the original brand.”[16] The objectives that a good brand will achieve include:

Clearly delivers the message

Confirms your credibility

Emotionally connects your target prospects with your product and or service

Motivates the buyer to buy

Creates user loyalty

To succeed in branding, company must understand the needs and wants of its customers and prospects. [27] “Brand not only creates loyal customers, but it creates loyal employees.

Brand gives them something to believe in, something to stand behind. It helps them understand the purpose of the organization or the business."[27]
To build a good, well-known brand is sometimes unpredictable. In analytical part we involve branding as one of the indicators, which influence customer's purchasing decision. Also good branding can build an expectation and encourage company to bring better products on the market.

Corporate advertising promotes the overall image of the organization by influencing key stakeholder's attitudes about the overall wealth and long-term financial viability of the company. This form of corporate advertising can stimulate interest among potential investors as well as market analysts. The goal is to create public awareness of the company to legitimize its financial status and business performance. Identity, on the other hand, is the visual manifestation of the company's reality as expressed by company's action, symbols, rituals, ceremonies, sagas and jargon. [1,9]

3.2 Marketing Communication

Marketing Communication is one of the key issues that marketers must address when designing a marketing strategy for product/service. Marketing Communications are mainly connections to the market; coordinated promotional messages delivered through one or more channels such as print, radio, television, direct mail, personal selling and today internet and social media. [4]
Modern marketing calls for more than just developing a good product, pricing it attractively, and making it available to target customers. Companies must also *communicate* with their customers, and what they communicate should not be left to chance. To communicate well, companies often hire advertising agencies to develop effective ads, sales promotion specialists to design sales-incentive programs, direct-marketing specialists to develop databases and interact with customers and prospects by mail and telephone, and public relations firms to develop corporate images The company communicates with its intermediaries, consumers and various publics. Its intermediaries communicate with their consumers and publics. Consumers have word-of-mouth communication with each other and with other publics. Meanwhile, each group provides feedback to every other group.

A company's total marketing communications mix - called its promotion mix consists of the specific blend of advertising, personal selling, sales promotion and public relations tools that the company uses to pursue its advertising and marketing objectives. Let us define the four main promotion tools:

1. Advertising. Any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

2. Personal selling. Oral presentation in a conversation with one or more prospective purchasers for the purpose of making sales and building customer relationships.

3. Sales promotion. Short-term incentives to encourage the purchase or sale of a product or service.

4. Public relations. Building good relations with the company's various publics by obtaining favorable publicity, building up a good 'corporate image, and handling or heading off unfavorable rumors, stories and events. [7,2]

The marketing communications system

“Called direct **marketing,** involve the use of mail, telephone, fax, e-mail and other non-persona/ tools to communicate *directly* with specific consumers or to solicit a direct response. Because of its rising importance;, modern marketers have frequently referred to it as the fifth element of the communications mix. However, direct marketing techniques are not just communication devices; they are also safes *channels* in their own right. “[7]

Steps in developing Effective Communication

Effective integrated marketing communications, for example, uses multichannel, integrated strategy that communicates with a single voice to the organization’s various customers. Matching messages to consumer needs and integrating communications into single clear and understandable message are important ways to increase the chances that marketing messages will be desirably processed.

1. Identify target audience – The audience may be potential buyers or current users, those who make the buying decision or those who influence it. The audience may be individuals, groups, special publics or general publics.

2. Determine the Communication Objectives – Decide what response is sought. The marketing communicator needs to know where the target audience now stands and to what state it needs to be moved. The target audience may be in any of six buyer-readiness stages - the stages that consumers normally pass through on their way to making a purchase. These stages are *awareness, knowledge, liking, preference, conviction* and *purchase.* The purpose of marketing communication is to move the customer along these stages and ultimately to achieve final purchase.

3. Designing a Message-Having defined the desired audience response; the communicator turns to developing an effective message. Ideally, the message should get *Attention,* hold interest, arouse *Desire* and obtain *Action.* In putting the message together, the marketing communicator must decide what to say *(message content)* and how to say it (message *structure and format).*

4. Choosing Media- The communicator must now select *channels of communication.* There are two broad types of communication channel: *personal* and *non-personal.*

5. Collecting Feedback- after sending the message, the communicator must research its effect on the target audience. This involves asking the target audience members whether they remember the message, how many times they saw it, what points they recall, how they felt about the message, and their past and present attitudes towards the product and company. The communicator would also like to measure behavior resulting in the message - how many people bought a product, talked to others about it or visited the store. [7,2]

6. Setting the Total Promotion Budget and Mix – additional [7,2]

3.3 Customer behaviour

"Consumer behavior is a branch which deals with the various stages a consumer goes through before purchasing products or services for his end use."[30] It attempts to understand the decision-making processes of buyers, characteristics of the buyers and its behavioral variables.

Two main groups of customers are individual consumer and organized buyer.

Customers differ by age, sex, income, level of qualification, lifestyle and personal tastes and preferences. This is important to know for segmentation the product or service that will serve to certain needs of specific customer group.

The main questions from research customer behavior are:

Which are the main factors that influence customer behavior?

Which rules governing the decision-making process accompanying the purchase?

What is the feedback of customers on various incentives, especially those affected by company?

For a successful product launch we have to determine: Occupants, objects, objectives, organizations, operations, occasions, outlets. [6,9]

Factors that influence customer behavior:

1. Cultural –Cultural environment of customer and its society, religion, tradition of a country.
2. Society – Society class, family influence, friends, referential groups.
3. Personal – Personal preferences and tastes of individual, lifestyle, life-cycle stage of individual, job (specialization: systems for building, programming…).
4. Psychological – Motivation, perception, attitudes.

For the purchase of unnecessary good the process is follows: The emergence of needs, collecting information and its evaluation, purchase, behavior after purchase. For each stage are used different marketing tools. [6,9]

Information about customer we obtain by 3 ways: internal sources of company, monitoring, marketing research.

Internal sources are the easiest way, evidence of financial reports, accounting, information about sales and orders – quantity of ordered products (we can determine 20% of our stable customers, who should count for 80% of our turnover), type of goods ordered (in what products are customers interested and in what are not), time interval (how often is the purchase provided, monitoring of demand for products during year), ability to comply with the payment terms. [3]

3.4 Mass x Prestige production

In terminology we have to define difference of mass and prestige production. The division is according to the brand prestige, price and distribution channels used. Important is segmentation of market ad specialization of final customer, and therefore determination the place of product position or brand position among other products and competitors. The company determines its image and image of its products/services (firm stylized roles in which wants to be seen by the customer). For product determination is important tool differentiation – competitive differentiation on the market. [4]

Company with prestige production has to achieve high quality level, provide quality products, ensure above average service, invest to innovations, using the newest technologies, chose the right selective distributors and sell for high prices. The advertisement is more specialized, used for segmented groups. Examples of companies with prestige goods in cosmetics are: Guerlain, La Mer, La Prairie, Kerastase. [4,14]

Company with mass production stands more at the average. They cannot expect that customers will buy its product for high prices, should use different advertisement ways – TV, radio, distribution channels are wide and extensive. The high turnover compensates the lower profits from sold piece goods. Examples of companies with mass goods in cosmetics are: Maybelline, Miss Sporty, L'Oreal, Nivea. [9]

"In a global view in 2010, the mass segment was represented 72% of total sales, while the premium segment accounted for the remaining 28%. The majority of global premium cosmetics sales are concentrated within the developed markets (mostly US, Japan and France)." [15] However in last years, mass-market share fell from 66% in 2012 to 65% in 2013. So the share of prestige production is increasing. [15]

Mass production is less expensive, usually distributed through drug store, supermarkets, and direct sale – door to door, Internet, catalogue. "The marketing communication is focused on product formulations, dissuading consumers that more expensive products are only choice for advanced formulations."[35] The prestige production is more expensive, rely more on exclusivity, distributed through specialized shops or saloons or perfumery. [4,14]

3.5 Exclusive distribution

Exclusive distribution is the most restrictive form of market coverage, which entails only one or a few dealers within a given area. Because buyers may have to search or travel extensively to buy the product, exclusive distribution is usually confined to consumer specialty of goods, a few shopping goods, and major industrial equipment. "Sometimes exclusive territories are granted by new companies (such as franchisors) to obtain market coverage in a particular area". [29] Limited distribution may also serve to project an exclusive image for the product. Retailers and wholesalers may be unwilling to commit the time and money necessary to promote and service a product unless the manufacturer guarantees them an exclusive territory. This arrangement shields the dealer from direct competition and enables it to be the main beneficiary of the manufactures promotion efforts in that geographic area. With exclusive distribution, channels of communication are usually well established because the manufacturer works with a limited number of dealers rather than many accounts. Exclusive distribution also takes place within a retailers store rather than a geographic area- for example, when a retailer agrees not to sell a manufacturers competing brands. Mossimo, traditionally an apparel wholesaler, developed an agreement with Target to design clothing and related items sold exclusively at Target stores. Other exclusive distributors involved in successful model include Thomas O'Brien domestics, Sonia Kashuk makeup, Isaac Mizrahi domestics and apparel, and Todd Oldham home furnishing for the college student. [29, 14]

3.6 Porters five analysis

For creating organizational strategy you need to know external environment that the organization is operating in. The two most widely used tools that help to do this is PESTEL analysis and Porter's five forces analysis. The PESTEL enables to create a list of potential issues within your macro-environment that have or could have implications for your organization. The Porter's five forces analysis helps to understand your competitors and impact the can have on your organization. Michael E.Porter identified five key forces that determined the fundamental attractiveness of a market or a market sector in the long term. [24, 13] The change in one force can influence the development of others. The importance of each force may differ, it depends on industry field. Many successful business are example that the attractively of its field or industry is more important than their level of management skills. If the demand exceeds supply and barriers to entry are high, even the average business can realize over performing revenues. Present reality shows the opposite difference, supply exceeds demand and therefore existing high competiveness. In industries, where all 5 forces act positively, for example pharmaceuticals, production of non-alcoholic beverages, many competitors perform good revenues. Profitability of industry doesn't correspond with the product and its look or technological innovation, but function of industry structure. Analysis of industry structure must be oriented on basic characteristics of industry, resting in its economy and technology. [12, 13]

The benefit of Porters model is its system, where competitive forces are presented.

If the business should be balanced, it needs to:

Isolate company as much as can from influence of competitive forces

Use competitive advantage in industry for its benefit

Stabilize the company in strong position

This process is based on analysis, which determines where the pressures come from and how to prevent from them.

A. Threat of new entrants

Is dependent on: Barriers for entrance and Reaction of existing companies on new competitor.

Barriers of entrance are connected with economies of scale, capital intensity (coverage of fixed cost), product differentiation, access to distribution channels, politics (tax regulations, license…).

Reaction of existing companies: The negative reaction may be expected when existing companies have high capital resources (financial resources, great relationships with distributors, production capacity) that they can avert threat from new entrants. Other case is when existing companies can decrease its prices to maintain their market share. And third case is when the growth rate of sector is low and new entrant will worse financial situation of all participants.

B. Bargaining power of suppliers

Suppliers can: Increase prices and Decrease quality of products

The power of suppliers is dependent on many factors, the power is high when: They are concentrated, the supplied product is unique or there are high costs for switching to another supplier, the supply of its products is not bounded with supplies from other sectors, possibility of vertical integration to sector in which are suppliers, the sector isn't the only one or the most important customer of supplied products.

C. Bargaining power of buyers

Buyers can influence profitability of sector by its pressure on price or quality of products. The buyers are strong when:

They are concentrated or purchase in huge amounts, usually they influence sectors which have high fixed costs; when purchased product is standardized or non differentiated (easier switch to another supplier or another sector); purchased product is important for buyers (price sensitivity increasing and buyers tend to find the best conditions); the profit for buyers is low therefore they try to decrease their costs; purchase product is not important with influence on quality of final product (price sensitivity is high); purchased product is wanted (buyers are oriented on quality more than price); buyers have real possibility for vertical integration into supplier's sector.

In general, buyers are more sensitive to price when they are buying non differentiated products or products that are expensive relatively to their income, or where the quality of product is not important.

D. Threat of substitutes

The easier is to replace existing products by substitutes less attractive the sector is.

Substitutes are important when: their technological innovations of existing products offer better customer satisfaction; they are produced in sectors with higher profitability.

E. Rivalry among existing competitors

Rivalry among existing competitors is result of each participator effort for its better position.

Rivalry is increasing when: Competitors are many, similar size and power; the growth rate of sector is low therefore increase of market share is possible only at the expense of competitor; the products or services are not differentiated; barriers to enter are high (the ownership of specialized assets, loyalty of management to certain activity..) then the company can continue in its production even though return on invested capital is low. The company negatively influence also position of “healthy” competitors. Rivals are in conflict of interest (competitors don’t agree upon ways and conditions of competition).

The goal of this analysis is to find position of a company, which is less harmful from sides of competitors (existing or potential, from sides of suppliers, buyers and substitutes. The position should be in the best defence to existing competition pressures. [11,13]

4. Practical part

This investigative part of study illustrates cosmetic industry characteristics, indicators in global point of view, on EU market, and Czech market, where is supported by Porters analysis. The major cosmetic players are identified and evaluated, with summary of the strongest leader, pros and cons of each competitors and factors that need to be improved.

4.1 Cosmetic industry

The cosmetic industry is huge money making business today and customer's ability for spending is increasing. In total revenues global cosmetics market reached USD 379 billion in 2013, and every year is increasing. In 2017 the expected revenue is USD 461 billion. [39]

The global cosmetics industry is broken down into six main categories (skincare, body care, makeup, perfumes, hair care, nail care), where **the skincare being the largest one out of them all for 35.3% of the global market in 2014**. [39]

USA is the biggest cosmetic market in the world, with total revenue of USD 62 billion and employ about 68,816 people by 2016. The average expenditure per capita in 2014 was USD 169. [39] One of the leading beauty cosmetic companies in the USA is Procter&Gamble. In 2014, P&G generated USD 29.4 billion in net sales as compared to USD 29.2 billion the year before. [39]

"The cosmetic industry seems to be continuously developing, now more than ever with the advent of internet companies. Online shops and mail-order household sales generated about 17.3 billion U.S. dollars in 2013. Cosmetic sales are estimated to continue to grow in global markets, as many consumers feel that beauty products help in achieving social and economic goals." [39]

To understand this phenomenon we have to summarize main trends and indicators that influence this industry.

The main global trend that influence cosmetic industry is:

Ageing population

"Thanks to the modern science, development, medical care and peace in most of developed countries, people expand and live longer. This expansion is especially typical for developing countries; in developed countries there is the opposite problem with a low natality rate. People live longer and middle age with older age is getting longer. However, trend today is to be young and look young as long as possible. To fulfill this demand it serves cosmetics industry, which has always been part of our lives, but during last decades it has achieved a greater importance. People tend to spend more and more money and the industry is under pressure of demand to develop products, which satisfy the customer's needs. This roundabout named cosmetic industry is a money-making machine and in today's world it has significant effect to our lives, which cannot be overlooked." [31,14]

Customers want to see immediate results and they are not band loyal. Companies are getting ahead about who will present the best innovative product on the market. "The biggest competition in anti ageing process to cosmetic companies is medicine. Plastic surgery, laser operations and implication of botulotoxine are competitive to skin care anti ageing products. Nevertheless, these procedures are invasive, expensive and cannot be used all the time due to possibility of disaster consequences with frequent implication." [31,14]

4.1.1 Specific indicators that influence cosmetic industry

A, Difference in purchasing behavior of customers

In each continent, country, or region consumers differ in decision-making and purchasing behavior. It is influenced by traditions, habits, trends, level of income and psychological factors.

Cosmetics can be divided into 6 main business segments: skincare, hair care, makeup, fragrance and toiletries, body care and nails.

Among the EU countries, skin care, hair care, and toiletries each occupy a market share of 25%, while fragrance account for 15%, and decorative cosmetics cover the remaining market share. "Skin care has a decidedly more dominant market share in both Japan (40%)

and China (39%). In the US toiletries dominate the cosmetics market with a 32% share, while hair care, skin care, and decorative cosmetics have roughly equal shares, and fragrance perfumes are less important." [25,31]

A.1 Awareness of sun damage, pollution & trend of pale skin

"According to this phenomenon we can compare different demands in different types of markets. In North America and Europe the trend is tanned, bronze skin and companies try to satisfy the demand by developing self tanning lotions, moisturizers, or bronzers. On the opposite, Asia market has trend of pale skin. Most of the skincare and makeup products contain high UVA and UVB protection; high demand is for whitening products, which contains retinol and vitamin C to get skin more "whiter" and vanish all hyperpigmentation spots. [5]

Key consumers for whitening products are young women, mostly from urban areas, who earn more money and can afford prestige line of cosmetics. "[31]

A.2 Time saving

Today, people want to save time as much as possible. In one hand with this phenomenon is development of "time-saving" 3 in 1, 2 in 1 cosmetics products. Examples are shampoos with conditioners, cleansing foam with tonic, makeup remover with toning lotion and moisturizer in one, foundations with SPF factor, 24-hour moisturizers. In addition to that, in 2012, the boom from Asia of BB and CC creams, which fulfill the function of moisturizer, protection and coverage foundation of skin. [5]

A.3 Organic and environmentally free products

The trend of caring about environment hit the cosmetic market too. People start care about ingredients inside the products – paraben free products, mineral oil free ingredients that negatively effect the environment or ingredients that are chemically treated and added into the products. It is the consequence of increasing awareness about healthy lifestyle and overall awareness about customer health itself. [5]

Other aspect is animal testing; people start to be interested in whether the products have been tested on animals or if the company provides animal testing on their products. Some companies like The Body Shop or Lush cosmetics had based their branding on non-animal testing products. [31,5]

B. Distribution channels

The ways how to get product to customer are various and in each continent, segment it differs. We have Non-store retailing channel, Drug store selling channel and Store selling channel.

B.1 Non-store selling channel

Is direct sale and sale over Internet, which is gradually increasing. [39] “In fastest growing emerging markets such as Brazil, China and Argentina, direct selling is on the rise. For example, in 2010 cosmetic sales through direct sells in Brazil were accounted for one-third of total sales in 2010. “Brazil has more Avon ladies (900 000) than soldiers in its army and navy put together.” [29] In this case, culture has a significant impact on consumer behavior. Direct sellers make a network of customers through door-to-door sales or word of mouth and provide professional advise and analysis of client’s needs and choose the right products. On the other hand, Avon and other direct selling cosmetics like Mary Kay or Oriflame are losing their sales in other regions like North America or Europe. Customers are becoming attracted to online selling or drug store selling more, so Avon has gone online, but kept the personal touch by encouraging their representatives to get online and host their own pages. [21,31]

The online cosmetics sales channel is one of the fastest growing, especially it gets popularity on South Korea, France and United States. It can be expected that in coming years, sales of online cosmetics will get higher. [29, 5]

B.2 Drug store selling channel

Is selling through hypermarkets and drug stores. The products consist of mass production brands, so usually cheaper products, which brands are well known by mass marketing. Typical examples are DM, Rossman, or Albert.

B.3 Store selling channel

Is typical department store selling in specialized shops of certain brands, or network of perfumery stores like Douglas or Sephora, where provide customers full service like makeup or professional advise in choosing products for specific customer needs. [29,31]

4.2 Graphs of shares of cosmetic industry – Appendix

In **Appendix 2** is a chart "Market volume of cosmetics and personal care in Europe in 2014, by country (in billion euros)". From The chart we see that the largest market of cosmetics holds Germany (13.01 billion euro), followed by France (10.58 billion euro), UK (10.4 billion euro), Italy (9.39 billion euro) and Spain (6.35 billion euro). The Czech Republic is on 18th place with revenue of 0.72 billion euros. Before CR are smaller countries in terms of number of inhabitants like Switzerland, Austria, Denmark, Norway or Finland. Our neighbor Slovakia is behind us with value of 0.52 billion euros.

In Appendix 3 and 4 are charts " Distribution of personal care products sales value in Germany and France in 2014/2015 by category".

First we describe **Appendix 3 for German market**. The highest distribution has Facial care (15.1%), followed by Cosmetics – Make-up care (12.3%), Oral care 11.8%, Hair care (11.5%), Fragrances (11.4%). In comparison with **Appendix 4 for France market**, the Facial care is up to 4th place (10%). The first place has Hair care (14.7%), followed by Oral care (12.7%), Body Cleansing (11.5%). Fragrances, for which French are famous, are only with 3.3%. Its interesting finding that German customers care more about their Facial care, Make-up and Fragrances more than France, whence most of the skin care and perfumery companies came from. It is increasing trend in France of increasing demand in hair care.

In **Appendix 5** is a chart "Value of cosmetic exports from Europe in 2014, by export country (in million euros)". The top one export country is France with 5,813.1 billion euros. It is not surprising because French has long tradition in cosmetics industry and many of the biggest cosmetics companies came from France (L'Oreal, Guerlain, Dior, Lancôme, Chanel, YSL, Balmain, Givenchy, Sisley, Clarins…). The second export country is Germany (2,863.6 billion euros), however Germany is the largest cosmetic market in

Europe and stands before France in terms of market volume, in Export is on the second place. The biggest German exporter is Beiersdorf Company (La Prairie, Nivea, Eucerin…). Other countries followed are UK (1,412.6 billion euro), Italy (1,359.1 billion euro) and Spain (1,331.2 billion euro). The Czech Republic is on 12th place (147.2 billion euro), so according to charts, its better than with the market volume. The most famous Czech cosmetic export companies are Dermacol, Ryor, Le Chaton, Nobilis Tilia…

In **Appendix 6** is a chart "Sales of the leading cosmetics companies worldwide in 2014 (In billion U.S. dollars)". The leading conglomerate is a French company L'Oreal (29.9 billion dollars), followed by Holland- British Unilever (21.7 billion dollars), US company P&G (19.8 billion dollars), Estée Lauder (US) with 10.9 billion dollars, Shiseido (originally Japanese company, now American) with 7.4 billion dollars, and German Beiersdorf (6.6 billion dollars).

4.3 EU market characteristics

The position of cosmetics industry on European market is strong and it has long tradition and high impact on global trends. **The best-positioned category is skin care and sun care products, followed by decorative cosmetics (makeup), hair care and perfumes,** which rate of export growth are faster than the industry average. [24]

The EU countries, especially France, Germany, UK or Italy had built large trade surplus and a significant comparative advantage in cosmetics products. "The cosmetic manufactures identified the most important consumer trends and have responded with new product offerings that have been successful." [24] Thanks to this approach these companies have successfully developed strong brand recognition on European and global market.

The biggest comparative advantage of European companies, mainly French and German, is their innovation, tradition and investment into product development and marketing. "The result is a large number of patents and successful new product launches in each company's established markets." [24,5]

4.3.1 Structure of EU cosmetic market

"The total EU 27 countries cosmetics market was valued in 2006 at 63.5 billion euro. Among the EU countries, **Germany has the largest cosmetics market**, valued at 11.7 billion, followed by France 10.4 billion, the UK 10 billion, Italy 8.8 billion, and Spain 7.4 billion." [25, 31] In 2014 cosmetics industry had increased, Germany still held the first place at value of 13.05 billion euro, France 10.58 billion euro, UK 10.4 billion euro, Italy 9.39 billion euro, Spain 6.35 billion euro. [**Appendix 2, 39]**

"In general European costumer is more conservative than American. However, increasing demand for anti-age products and sun care products persists. On the opposite to American market, Europe has tendency to lean more to Asia trend –UVA and UVB protection before sun damage, pollution damage, pale skin or skin without pigmentation spots. Moreover, there are growing concerns about skin cancer and exposure to harmful rays with consequences of pollution. Anti-ageing creams and anti-cellulite skin care products are demanded in aging population in developed countries. There is also growing diversity of men cosmetics, like fragrances and growing demand for natural/organic products. Thanks to declining birth rate, we can notice little decrease of baby care products." [31,5]

French market is primarily oriented to fragrances and skin care products as well as Nordic countries like Finland, Norway and Sweden. Germans and British spend mostly on toiletries. [25] Toiletry and skin care is also the most targeted products for new men segment. Skin care is definitely the most dynamic market with highest potential for innovation. "There are significant number of major international cosmetics firms in Europe – mainly in France and Germany." But its essence has hundreds of small and medium sized companies in most countries. The industry key players followed a strong acquisition strategy in recent years, where the main purpose was to introduce new product lines and expansion of products under company control. [25]

4.3.2 Challenges for EU cosmetic companies

One of the challenges for EU cosmetic companies seems to be penetrating Japanese and Chinese markets. In the past regulatory barriers may have been issue for EU companies, but now the establishments of a prohibited ingredient list in Japan is similar to the EU. Also, EU companies adapt their products to the needs of Asia consumers.

Another problematic issue for EU cosmetic companies is relatively low productivity combined with high unit labour costs. [22] “Simple productivity comparison across countries exposes a wide gap between EU companies and their counterparts in the US and Japan. Even after making adjustments to the data and taking into account a number of important measurement issues, the productivity gap favouring firms in the US and Japan is still considerable.” [25]

Counterfeits, as replicas of great brands especially of perfumes and toiletries, have also impact on industry revenues. They reduce the return to R&D, primarily by firms in France and Germany. Defence against counterfeits should be enforcement of anti-counterfeiting laws across the EU countries and controls over import products. [22]

Channels of distribution are similar in Europe and US, however they work little bit differently in Japan and Asia market, which is likely to be one of the trade barriers for EU companies. Large companies started their early stage production in less mature markets to reduce production and transportation costs as well as to better understand cultural differences and their impacts on evolving consumer preferences. [25]

Last few years, Europe companies are influenced with wave of natural/organic trend products. This time benefits to SME’s and companies with handmade organic cosmetics. “Large companies are acquiring SME’s that have successfully introduced products into their the fast growing market segments.” [15, 31] The Body shop is a great example of small UK company with natural cosmetics, which developed into large corporation with more than 2500 stores in 61 countries. [34] In 2006, The Body shop was bought by larger company- L’Oreal Corporation. However, the European market for SME’s has opportunities. [5]

4.3.3 Barriers to entry

Enormous competition, large number of SME's and few main large corporations, which owe many smaller cosmetic companies, characterize the industry. In general there are relatively low barriers to entry and exit. "Government regulation (mostly related to differences in the approach to safety issues) and distribution channels appear to be the most significant barriers to entry in cosmetic industry." [25, 22] Distribution channels play important role, where costumers choose the channels according to the type of products that they are seeking. "In EU distribution channels fall under four main categories: mass distribution, specialized distribution, pharmacy sales and direct sales. Channels are very similar across EU countries and somewhat similar in the US." [25] "Regardless of the manufacturing processes or the channels of distribution, cosmetic products placed on the EU market must be safe**. The manufacturer is responsible for the safety of their products, and must ensure that they undergo an expert scientific safety assessment before they are sold.** A special database with information on cosmetic substances and ingredients, called CosIng, enables easy access to data on these substances, including legal requirements and restrictions.

Cosmetics legislation at EU level also:

- Requires that all products to be marketed in the EU must be registered in the **Cosmetic Products Notification Portal (CPNP)** before being placed on the market;
- Requires that some cosmetic products are given special attention from regulators due to their scientific complexity or higher potential risk to consumer health;
- Ensures that there is a ban on animal testing for cosmetic purposes;

makes EU countries responsible for market surveillance at national level." [22]

4.4. Czech market characteristics

Czech Republic belongs to the smaller players on cosmetic market. According to the graph in **Appendix 2,** its market volume in 2014 was 0.72 billion euro, which takes 18th position among European countries. Even smaller countries (by population of a country) like Switzerland, Austria, Denmark, Finland or Norway have higher volumes than Czech Republic. However, the Czech market had proceeded on upward increase in future.

4.4.1 Trends on Czech market

Czech customers are known for being traditional, conservative and price sensitive. They are loyal to their known brands; mostly daughters are loyal to brands of their mothers. However, younger generation, born in 80s, is becoming more globally aware, fashion conscious and open minded to new brands. Comparing to other East European nations, Czech market is becoming fashion and health conscious. Also more and more costumers prefer quality and invest more to prestige cosmetics, which caused demand for prestige brands. [26]

Popularity of natural and organic products is increasing also as the higher interest in lifestyle and care about environment. In terms of specific product trends, Czech Republic has similarities as global trends. "Anti-aging products are gaining popularity and skin care products kept relatively stable despite the economic crisis." [29, 31] Sun care as well as self-tanning lotions are demanding due to awareness of skin cancer and trend of tanned skin. The second most demanded category in 2012 after skin care was makeup. Trend of increasing demand for men product is apparent in Czech Republic too. [26]

In skincare section, Czech customers prefer foreign brands; especially French brands have exceptional reputation. [26] In Prague there are main separate institutes only with French cosmetics- Guerlain Institute in Dlouha Street, Lancôme Institute on Jungmanovo Namesti, Sisley next to Parizska Street or Mary Cohr and Orlane in Prague 1. In makeup and hair care, Czechs are more open, thanks to younger generation, who are not scared to buy new, unrivalled brands. [31,5]

Despite the fact, those foreign brands are better sold on Czech market; there are few native brands, which did not lost in the competition and holds long tradition – Dermacol or Ryor, Both are more drug store massive brands, less expensive, affordable for most of the customers. Ryor is skincare brand; more oriented as a medical cosmetics and its ingredients are natural. Dermacol is more famous, because it was one of the first companies in the world, which developed foundation and sold its product licence to Hollywood in 1969. [18] Today the brands is owned by British and it is sold across the boarders in Poland, Ukraine, Russia, Middle East or Australia. [31]

4.4.2 Distribution channels

In 90's and beginning of millennium, new distribution channels such as direct selling – door to door sales and catalogue selling, were very popular. Avon, Mary Kay, Oriflame, and later Nu Skin and Amway are the main representatives of direct sellers on the Czech market. In any event, in last few years direct selling is experiencing outflow of customers in world wide, including Czech Republic. Czech customers becoming more oriented on drug stores, supermarkets, specialized shops such as perfumeries or more and more people are attracted to online selling. "Private labels have also fared relatively well, maintaining their market share over recent years largely due to the popularity of Marks & Spencer and other private label brands such as The Body Shop or L'Occitane. Sales of private label cosmetics and toiletries products were on average 10% to 15% of the total retail trade in the Czech Republic." [26, 31]

"The market for skincare and makeup products is dominated by imports, especially in the area of high end brand name cosmetics, and foreign brands manufactured in country. Although the economic crisis negatively impacted rapid growth in the sector over the last few years, it is expected that there will be 14% growth in this segment until 2014." [26, 31] The main importers of cosmetics product to Czech market are Germany, France and Poland. America brands have strong recognition, but only 4% of cosmetics imports are originate from US. [26]

4.4.3 Porter analysis for Czech market

Porters for Czech market of cosmetics serve as a summary of the situation on the market and chapters above, to identify potential opportunities and limitations of the market and attractiveness of industry.

A. Threat of new entrants

Barriers to entry: In general there are relatively low barriers to entry and exit. CR is a member of European Union, therefore the company, which wants to entry on the market, has to fulfil EU safety and secure policies. "The EU's involvement mainly concerns the regulatory framework for market access, international trade relations, and regulatory convergence. These all aim to ensure the highest level of consumer safety while promoting the innovation and the competitiveness of this sector." [22] More in chapter above – **4.3.3 Barriers to entry for EU**.

Access to suppliers and distributors is substantial, also as the brand reputation for Czech market. Amount of capital required could be high, for starting with not very well known cosmetic brand you will need high spending into marketing and advertisement. Potential to penetrate the market is with patent on new products or innovations or distributors.

B. Bargaining power of suppliers

The supplied product is unique and specified, with high level of safety standards. Bargaining power is high because suppliers can begin to produce buyer's products themselves. For prestige production, the buyer is not price sensitive and mostly is uneducated regarding the product.

C. Bargaining power of buyers

The cosmetics can be taken as unnecessary good; therefore buyers have high power to influence the demand for the product. The switching costs to other supplier are low, for example in skincare and makeup, during crisis switching from prestige brands to mass cosmetics or none was frequent phenomenon. [26] The quality should sustain same, but revenues for the producers had to lower, because price of products has to get lower. Also alternatives of other brands are many, however Czech buyer is conservative and prefers not to switch to other brand, is able to spend more for some products, but he is price sensitive and choosing to find the cheapest alternative of his product. The size of buyers is in terms of EU is in the middle. **(Appendix 2)**

D. Threat of substitutes

In cosmetic industry **there are not much options for substitutes**. The only substitute threat, which might be taken into consideration - but just for specific products from skincare and body care, is pharmacy and plastic surgery. In Czech Republic, the popularity and awareness about plastic surgery is increasing. [38] During the years is also more affordable and available to more people. However, the costs are still higher comparing to the skincare and its impact is invasive with potential higher risks. The other substitute – pharmacy, has more specified range of products, so it is not for all customers.

In general threat of substitutes are low, because no substitute product is available and if there is, the switching costs are high.

E. Rivalry among existing competitors

The cosmetic industry growth is high; there are just few competitors of equal size on the Czech market – Perfumeries and online portals. Other competitors are not that important - Door to door sales (not very popular in CR now Chapter above -Trends on Czech market), drug stores (but only for mass cosmetics), salons (with specific brands). Czech customer is conservative, therefore loyal; **products are not easily substituted.** The level of advertising expense depends on brand awareness. There is huge potential for growth of this industry, in CR customers tends to spend more for prestige brands and they are open for new brands. (**Chapter – 4.4.1 Trends on Czech Market)**

Conclusion

If we summarize it, the **barriers to entry are low, however capital intensity is high**. The industry is growing fast and one of the key success factors is patent on cooperation with supplier chains **and high differentiation of products**. On the Czech market are just few competitors, who are sharing the market share; **the market is highly competitive**. The expectations of new entrants on the market are companies with new know how, through brands which are not on the market yet, but its trend is increasing, for example skin care brands from Asia, Makeup from US companies or very world wide known brands like Tom Ford makeup, Dolce&Gabbana, Laura Mercier etc.

Cosmetics as unnecessary good **don't have many alternatives and if there are some, the switching costs are high.** Identification of a brand is very important for buyer; especially Czech customer is conservative and relies on brand awareness. The alternatives for buyer are many, he can require price advantage, however cooperation with customer (choosing celebrity as a face of my company/brand), can be beneficial.

The supplier cooperation is one of the key success factors, there are many of them, but its necessary to find supplier with differentiated products go hand by hand with trends. In terms of switching supplier the costs can be high (depended on terms of conditions – if its exclusive distribution).

Chart Summary: Industry Competition factors

Industry Competition Factors							
Factor	**Evaluation**						
The growth rate of a sector	%	0-3%	3-6%	6-9%	9-12%	12-15%	
Barriers to entry	none		X				entry is almost impossible
Rivalry among existing competitors	extremly high		X				almost none
Availability of substitutes	many				X		no substitutes
Dependence on inputs	high		X				almost none
Bargaining power of buyers	determine the conditions	X					submit to conditions
The rate of innovation	very often innovations	X					almost none innovations
Level managers	highly qualified				X		poorly qualified

4.5 Major players on the market of cosmetics

This chapter provides an overview of main cosmetic players on the Czech cosmetic market. The focus relates to Douglas, because background information were given from Brand manager of Douglas in Czech Republic Mrs. Hana Vanatkova; references and internal information about other perfumeries were provided by Beauty ambassador of Guerlain Mrs. Barbora Bezdekova.

4.5.1 Douglas

Douglas is a German company operating on the Czech market since 2003. Its business is production, distribution and providing services in cosmetics. The history of Douglas is in **Appendix 7.** The Czech branch is from 100% owned by German maternity company ***Douglas Investment B.V*** and Parfumerie Douglas International GmbH. [38]

Douglas stores: Douglas operates in ***19 countries with approximately 1700 stores*** with generates revenues around 2.6 billion euro (2014/2015). [16] It employs around 18,000 people and is Europe‘s largest specialist for quality cosmetics with a continually updated offering more than 40,000 products in its German online shop as well as related services across the perfumes, personal care, decorative cosmetics and other accessories. [20]

Mission Statement & Company strategy

“Client satisfaction is our top priority. Whether in our perfumeries, in the online shop or with the mobile application: We create shopping universes that perfectly fit the individual shopping habits of our customers. Advising and servicing is our passion, because we want to meet our customers’ wishes, win their trust and make their lives a little more beautiful: day after day, in every location, in every country, mobile and online. As a forward-looking business, we hold ourselves accountable to both our employees, customers and business partners and to our environment. That is why we promote a corporate culture that accommodates ideally all the needs and wishes of all our partners. This culture is reflected in our philosophy of “Excellence in Retailing” based on which the Douglas perfumeries will continue to build on our past growth.” [20]

The company strategy is focused on its growth, in multi-channel offering, product portfolio, geographic expansion, empowerment on the local markets and operating excellence- implementation of new concept of “shop in shop concept”, where brands has its own sales person and “corner” with their product portfolio. Douglas is extending its e-commerce activities to attract more customers and get their feedback. Also it continues with advertisement in printed media.
Another pillar is innovation and provide opportunity to new companies on the cosmetic market. [20, 38]

Douglas on Czech market
The number of stores in Czech republic is 15.
The biggest competitor in terms of market share is Sephora, which holds 1st position on Czech market, 2nd is Douglas, 3rd Marionnaud, and 4th Fann. [38]

Specifics of Douglas: Luxurious design of shops, high standard of client services – 8 services for free (skincare/makeup consultation, reservation system for makeup artist, packing service), No discounts (exceptions are birthday 10% discount, Marianne days, Christmas, special events), highly skilled personnel (continuous work with customers, get into their psychology thinking), client service (reclamation of products). Douglas is proud of its highly skilled personnel, high standard of offered services.
Compared to Sephora, Douglas has Internet shopping, which is under the administration of German Douglas, and customer can offer products, which are offered on German market. Another benefits of Internet shopping are discounts, which you cannot get in shop.

Customer: Douglas is focused on non-price sensitive customer, conservative, brand awareness, which correspond with Czech customer characteristics. Reaching of potential customers is through events and cooperation with partners like Beauty Street, Design Block, advertisement (Elle magazine, billboards). [38]

Membership: Douglas offers client a member card, where he is registered in database and informed about news, events, sales and others. For a birthday customer gets 10% discount.

Also he can collect points for his purchases and therefore he gets a coupon in worth of 200 CZK (20 CZK is 1 point, 200 points is 200CZK voucher). The new is also use of Douglas application, where you can order directly from your smart phone.

Partners: Cesky lev, Karlovy Vary movie festival, Design block, Beauty Street, magazines Elle and Marianne.
The highest cost from last year went on advertisement. [38]

Exclusive brands in CR: Each country and region is specified and sometimes it differs in its offer of exclusive brands and range of products. In Czech Republic Douglas has exclusivity on brands: Kannebo Sensai, La Mer, Carven, Toni Gard, Rouge Bunny Rouge, Armani, Bobbi Brown, MBR.
The cooperation with exclusive brands depends on agreement with representatives of certain brand on the local market. The vision of Douglas is to use branches in other 19 countries and bring exclusive brands from other countries to CR and opposite.

Future plans: Expansion of product portfolio, opening new stores, in 2016, training of employees. [37]

Competitors of Douglas

4.5.2 Sephora

“Sephora is French company founded by Dominique Mandonnaud in 1970. Sephora's unique, open-sell environment features an ever-increasing amount of classic and emerging brands across a broad range of product categories including skincare, color, fragrance, body, smile care, and hair care, in addition to Sephora's own private label.
Today, Sephora is not only the leading chain of perfume and cosmetics stores in France, but also a powerful beauty presence in countries around the world.” [32]
Owned by ***LVMH Moët Hennessy Louis Vuitton***, the world's leading luxury goods group, Sephora is highly regarded as a beauty trailblazer, thanks to its unparalleled assortment of

prestige products, unbiased service from experts, interactive shopping environment, and innovation.

Sephora stores – Sephora operates approximately 1,900 stores in 29 countries worldwide, with an expanding base of over 360 stores across North America. Sephora opened its first U.S. store in New York in 1998, its first Canadian store in Toronto in 2004. Sephora's North American headquarters is located in San Francisco, with corporate offices in New York and Montreal. Sephora has more than 30 000 employees, 4 000 are in France.

Sephora stores in CR: Sephora stores are in 7 cities around CR, 19 stores in total, from it 13 stores are in Prague, the rest 6 are in Pardubice, Liberec, Pilsen, Karlovy Vary, Brno, Ostrava.

Sephora.com - Launched in the U.S. in 1999 and Canada in 2003, the foremost beauty site on the Internet is also Sephora's largest North American store in terms of sales and selection of products and brands. [32]

Sephora strategy & Mission statement

“Sephora's basic strategic: they are a combination distribution channel for other people's products and a marketing machine for their own specialized product line. The way they price their own line below the other products they sell allows them to actually use their competition to sell their own product line while also money-making of distributing the competition.” [17]

Sephora’s focus is on volume sale, so they have “pushing” marketing strategy based on discounts for its customers.

Mission: “The mission is to provide one-stop shopping for makeup, skin care and beauty products. The way Sephora do this, is they offer their own broad product line as well as being the means of distribution for many other products in both a print catalogue and an online website. They position themselves in the middle price wise offering their customers a mix of affordability and quality. They are neither the Rolls Royce nor the K-mart of the cosmetics industry. Their own products are less expensive than others they offer for sale, but none are too expensive.” [32, 17]

Beauty Insider - In 2007, Sephora launched a client loyalty program as a way of thanking clients with special products, exclusive information, and an all-access pass to personalized beauty. The Beauty Insider program is available in Sephora stores nationwide and at www.sephora.com. In 2009, Sephora launched V.I.B. (Very Important Beauty Insider), a premium level for Beauty Insiders giving clients access to exclusive gifts, event invitations, and early access to select products. [32]

Sephora inside JCPenney - JCPenney began opening Sephora inside JCPenney stores in October 2006. That original launch has turned into a phenomenon. Today, there are Sephora locations in JCPenney stores nationwide. These stores are smaller than a normal store with approximately 1,500 square feet but they are located in the center of the store and feature the signature Sephora look and beauty offering. [32]

Membership and service for clients: In Sephora you can be registered in database and get Sephora card which you can use during your purchase. By email or SMS you can get information about news, events, sales or discounts. You can get discounts by post and collects points for your purchase for invitations on events, introduction of new products and bigger discount than others. If you collect 650 points (1 point=7 CZK), you get 10% discount or you can get the 10% after your 4 purchases.
Service to the client is on high level – it has Gift factory, where you can let gift wrap for your friends in Sephora Palladium and Sephora Novy Smichov. Another additional service is Nail bar and Brow Bar, where clients can leave expertly modify their eyebrows.

Exclusive brands in CR: As we mentioned above, it's the same as for Douglas, that each region and country differs from its offer of exclusive brands and its range of products.
In CR exclusive brands in Sephora are: Urban Decay, Helena Rubinstein, Benefit, Too faced, Bare minerals, Nars, Makeup Forever, Michael Kors,Eisenberg, Dr.Brand, Sampar, Agent Provocateur perfumes, Atelier Cologne, Bumble and Bumble, Ciaté, Clarisonic, GAP perfumes, Jacomo, Jimmy Choo, Loewe, Masaki Matsuhima, Matrix, Marc Jacobs perfumes, Nalsinc, Orly, Rexaline, Roberto Verino, S.T. Dupont, StriVectin, Swarovski perfumes, The Different Company Paris, Tous, John Varvatos, Viktor Rolf and Vita Liberata. (32, 33)

Sephora's bestsellers in CR for 2015:

Perfumes for women: Jimmy Choo, Yves Saint Laurent Black Opium, Dior Dior J'adore, Marc Jacobs Decadence, Lancôme La Vie Est Belle.

Makeup: Mascaras – Benefit "They are Real" and "Roller Lash",Too faced "Better than Sex". Urban Decay "Naked pallet for eyes".

Skin care for woman: Benefit "Total moisturizer cream" and "Its potent" eye cream. GlamGlow mask "Youthmud Tingleexfoliate treatment".

Perfumes for men: Dior Dior Sauvage, Jimmy Choo, Chanel Bleu de Chanel, Hugo Boss The Scent, Armani Aqua di Gio.

Men skincare: Biotherm Control deodorant, Biotherm deo roll, Eisenberg anti ageing moistuiser.

Day to go collection (Collection for travels): Sephora balms for lips "Kiss me", Beauty Blender, Sephora textile sheets masks, Sephora "makeup base".

[32, 33]

4.5.3 Marionnaud

Marionnaud is originally French company established in 1984 by Marcel Frydman. Today is owned by international conglomerate ***CK Hutchison Holdings Limited***, which has seat in Hong Kong. CK Hutchison operates in more than 50 countries and employs 270 000 people. This group operates in fields of energy, telecommunication, infrastructure and retail stores. [19]

Marionnaud stores in CR: In CR it has 38 stores and it is represented by DIVA Center s.r.o.

Membership/ service for clients: Marionnaud customer can apply for membership card through registration in electronic database, where he is informed about news, upcoming, and future events, or sales. As a part of membership card customer collects for each 50 CZK from each product, 1 point. When he reaches 100 CZK he gets check in worth of 250 CZK, which he can apply for his next purchase. The membership card he can use in CR, but also abroad. Which is difference according to Sephora or Douglas.

Marionnaud doesn't have such rich offer of services, but you can get your product wrapped as a gift or you can use 10 minute of fast makeup by Marionnaud makeup artist.

Exclusive brands: Boucheron, Qiriness, Orlane, Decleor, Charriol, Jessica, Yves Saint Laurent skin care, Balmain, Erborian Korean skin care, Baylis & Harding. Hello Kitty, Parfums Café Paris, SYX. [19]

4.5.4 Fann

The story of FAnn Retail a.s. has started in 1991, when marriage couple Anna and Jaroslav Kokolusovi got the opportunity for business and started to bring on "empty" market in Czechoslovakia cosmetics products from abroad. Fann is originally Czech company and today it has 45 stores and 5 cosmetic salons in CR and Slovakia.

Fann Stores in CR: In Czech Republic Fann has 43 stores in 19 cities and the headquarters is located in Brno.

Membership/Client Service:
In terms of membership there are many ways of benefits. If you have student card, you can get 10-20% discount on certain products, which is not in any other perfumes. As a part of 4 stores there is Fann Beauty centers, where are salons, which are used for cosmetics procedures and treatments with brands Juvena of Switzerland, La Prairie and Matis Paris. In 5 stores there are Haute Cotoure Perfumes.

The top selling brands in skin care is surprisingly very prestige brand La Prairie, but in decorative care it's the mass brand – Max Factor and Bourjois.

Exclusive brands: 3lab, Bathique, Bettina-Barty, Cellu blue, Clean, DayDee,Betty Barclay, Evody, Gosh, Juvena, Kimmi fragnance, Lalique, Lollipops, Lumene, Marina de Bourbon, Matis, Mavala, Mosquit Clip, Olay, Olfactive Studio, MrMrs Fragnance, Perfumer's Selection, Persirex, Piz Buin, Police, Poo-Poirri, Revlon, Sftlips, Suavipiel, Emanuel Ungaro, Van Cleef & Arpels, Vespa, YS Uzac, Zippo fragrances. [23]

4.6 Evaluation of Douglas to its competitors

In Appendix 10 Is a chart "Company positioning of Douglas to its competitors", where is comparison of Douglas and its competitors according to key success factors. The factors compare number of stores, market share, according to the results of questionnaire (reputation of the brand, diversity of product portfolio, skilled workforce, design of shop), number of exclusive brands, membership, according to balance sheets (revenues, trade margin), price per randomly chosen product – in this case Guerlain Agua Serum Light. The evaluation was based on chart 1 to 5, when 1 is poorest, 5 is the best. Explanations are in **Appendix 10**. In this case the **highest evaluation from perfumeries has Sephora** with 4.35 points, followed by Douglas 3.85, Marionnaud 3.33 and Fann 2.62.

Douglas has to improve its number of stores - only 15 stores (the number should increase); **membership** - low level of benefits for its loyal customers, according to the questionnaire respondents prefer discounts and in comparison to Sephora they are not so equipped by samples of products. In terms of **price per randomly chosen product**, the product is at high price according to its competitors and with no offer for discount, customers will chose other perfumery or other distribution channel.

In Appendix 9 - Douglas External Factors, Opportunities and Threats are evaluated by 1 to 5, where 1 is the smallest opportunity or biggest threat, 5 is the best opportunity or lowest threat to Douglas.

Opportunities

Douglas should focus on New brands to portfolio (Customers appreciated in its competitor Sephora wide range of portfolio and brands), **New distribution channels** – good start with internet shopping and offering discounts; **Opening new branches** – as we mentioned above, Douglas should spread more into different cities around Czech Republic; **Increasing demand for prestige cosmetics and service** – in CR the trend of prestige cosmetics is increasing, and it might be good opportunity for Douglas to focus their activities on promoting their prestige brands; **Innovation in Douglas skincare line and makeup** – Douglas has its own brand, but according to their biggest competitor Sephora, the line is very poor. [36]

Threats

In terms of Threats, Douglas should be **aware of its biggest competitor Sephora**; **Government taxes and quotas** to cosmetics industry are unpredictable and its hard to prepare for possible changes; **Increasing cost of suppliers** – it would lead to increasing price for products, therefore there is threat of outflow of customers or their switch to other perfumery or brand; **Complications of reaching representatives for new exclusive brands** – expansion of product portfolio might be complicated due the agreements with representatives and suppliers of new brands; **Competition from internet stores** – especially Parfums.cz, where customers prefer to order cosmetics for lower prices from internet; **Expired products** – be aware of delivery from suppliers and expiration dates in shops, especially for skincare products there is threat that the product can be expired; **Inflation** – its does not play such important role like other factors and its impossible to influence it.

In **Appendix 9** The Internal Factors of Douglas – its strengths and weaknesses. The evaluation is scored from 1 (low strength, low weakness) to 5 (high strength, high weakness).

Strengths

The main Douglas strengths are **Organization** – very well managed management, distributed functions at branches, distribution of job descriptions and responsibilities; **Brand reputation** – among customers it has high brand awareness and Douglas is perceived as luxury perfumery with nice environment; **Cooperation with partners** – Douglas has many partners with which cooperates and which are highly seen by public like Karlovy Vary Movie festival, Fashion weeks, Marianne days and others; **Marketing Management** - according to Mrs.Vanatkova, Douglas has highest investments into marketing from all perfumeries. Its promotions in fashion magazines (Elle, Marianne, Baazar) and promotions of Douglas brands by celebrities like Armani makeup, La Mer cream or Sensai are highly visible. This is also connected with **Reputation of exclusive brands** – respondents appreciate high quality of exclusive brands.

Weaknesses

The biggest weaknesses for Douglas are **Organization** – it can be perceived as its strength but also as a weaknesses, because the organization doesn't work as it should, staff is frequently changing, the training of staff is not adequate, the company doesn't achieve its target day goals; **Cost of Production** – is very high; **No discounts for customers** – perceived by respondents as the biggest weakness of Douglas and reason to switch to other perfumery, where they can purchase cheaper; **Outflow of customers to competition** – increasing trend of internet portals, Czech customers demand discounts and benefits from perfumeries, in Douglas most of them are missing them; **Limited by product portfolio** – in comparison to their competitors in Douglas there not too brands that you would not find elsewhere and therefore reason why go exclusively to Douglas.

4.7 Summary of the major competitors of Douglas

The leading perfumery with **strongest position on Czech market is conclusively Sephora**. The closest competitor to number one is **Douglas, with its second position on Czech market, third is Marionnaud and fourth Fann.**

4.7.1 Sephora

Sephora has the highest rating in "Company positioning chart" with 4.35 points, which is very outstanding value. Their strongest points are – **The biggest market share on Czech market, Reputation of the brand** – customers in questionnaire evaluated Sephora as luxury perfumery with wide range of quality products for reasonable price, **Diversity of portfolio** –brow bar, makeup artists, Beauty to go collection, exclusive American brands (Helena Rubinstein, Benefit, Too Faced…), **Skilled workforce** – staff is qualified and helpful during purchasing process, **Design of shop** – colourful and nice environment, nice design of Sephora collection; **Membership** – customers appreciated memberships and wide range of benefits (invitation on events, birthday gifts, discounts, 3+1 on exclusive brands); **Revenues and Trade margin is highest from all the perfumeries**, for year 2014 according to the balance sheet, revenue was 737 468 million CZK which is increase according to the year 2013, when revenue was valued at 701 356 million CZK. The trade margin for 2014 was 354 744 million CZK, in 2013 was valued at 333 271 million CZK. From this we can summarize that Sephora's position is getting even stronger during years and in 2016 plans to expand with opening new branches and expand the product portfolio of existing brands. [33]

On the other side they **have reserves in: Number of branches,** which is going to improve in 2016 (with its 19 branches are the second perfumery with lowest number of stores), however as we can see its not important for revenues and profitability of perfumery; **Number of exclusive brands** – 35 its small number relatively to its biggest competitor Douglas with number of 55 exclusive brands, however quality exceeds quantity; **The price per chosen product** – some of the product are for reasonable price, anyway some certain products (bestsellers) and brands (YSL, perfumes) are overpriced in comparison to Douglas.

According to Mrs. Bezdekova Sephora has very pushy marketing strategy on customers, and employees work under pressure to sell as much as volume as they can. They have target sales per day. Therefore they have the best supply and products are always delivered. "Never happened that I was missing something in shop – even from samples or products". [36] There are strict rules and in comparison to other perfumeries, there are not many work collectives and working atmosphere is sometimes tense. [36]

However in terms of highest sales, Douglas wins. The regular customers of Douglas are usually able to spend more than customers of Sephora, Marionnaud or Fann. [36]

4.7.2 Marionnaud

The Marionnaud is number 3 on Czech market, with its market share and also popularity among respondents, its evaluation in Company position with 3.33 points stands at average. Their strongest **benefits are: Number of stores**, which is very high – 38. Marionnaud is very well spread around cities, where Sephora neither Douglas do not occur. Their **Reputation** is pretty high, respondents perceive Marionnaud as nicely looking store; **Membership** – Marionnaud is the only perfumery, where client card is valid in foreign countries. Unfortunately Marionnaud has the highest level of prices from all the

perfumeries – From my own research, if we compare randomly chosen perfumes of Dior, Chanel and skincare or makeup, Marionnaud has the higher price than its competitors.
Other indicators like diversity of product portfolio, skilled workforce, design of shop, number of exclusive brands – 13, are evaluated as average. They should **definitely improve their Design in shop** – customers complained about misleading shelves and strewn products among different brands. **Number of exclusive brands is very small** and if we want to buy brands, which are available in other perfumeries for lower price, it is not problem for customer to switch to competitor – Douglas, Sephora or internet store. Their revenues in 2014 were 410 244 million CZK, which is increase in comparison to the year 2013, where the value was 399 781 CZK. However the increase is not that high as Sephora has. Their trade margin in 2014 was 143 017 million CZK, in 2013 was 132 729 CZK, again small increase in comparison to Sephora. [19]
According to Mrs. Bezdekova, customers of Marionnaud are more open for advice. Marionnaud has its stable clientele, which goes to shop regularly.

4.7.3 Fann

Fann has very low evaluation; with its 2.7 points stands bellow average and in market share has the last position. **The number of stores is the highest** – 43, but according to the Annual report, they have to close 5 branches around Czech Republic, which also says about their financial position. They have similar strategy as Marionnaud has, their stores are usually in cities, where Sephora neither Douglas do not operate. **Their best positive is that they have Cosmetic salons**, which no of the other perfumeries have. **They should definitely work on their Brand reputation**, which is quite low and according to the questionnaire; respondents have low trust to Fann. **Design of shop is very poor**, some of the respondents answered as “dirty” and poorly organized. **The revenues are extremely low according to competitors**, in 2014 revenues were 19 774 million CZK, in 2013 were 25 762 million CZK. **Fann is the only perfumery, where revenues rapidly decreased.** Trade margin according to their Annual report was in both years 2014/2013 zero. [23]
They should improve their Membership, because they offer discounts only to certain group of people (ISIC students, employees of some companies…) and just on certain group of products.

5. Survey - Questionnaire

The investigative part consists of survey, which was in form of questionnaire. The evaluation of questionnaire and its synthesis should give us answers on aims that we have detected in methodology.

5.1 Results

The survey was made for 180 respondents, male and female, different age range -
47% - 85 of respondents are 18-26 years,
27% - 49 of respondents are 27-36 years,
14% - 25 of respondents are 37-46 years,
12% - 21 of respondents are 47 and more.

In **Appendix 1** is the format and area of questions asked. The survey was made in January/February 2016, it was sent to respondents electronically by e-mail and through social network. The printed version was sent into offices.
The goal of the survey was to describe and evaluate decision-making process of Czech customer, its characteristics, positioning to certain brands and perfumeries, their ability to invest to cosmetics and overall their relationship to cosmetic industry. Furthermore the results have been used in analytical part for “Company positioning of Douglas and its competitors”.

5.1.1 Indicators that influence buying decision

First of all, we have focused on main indicators that affect decision-making of customer during purchasing of certain product.

Chart 1.

Indicators influence buying decision	%	No.of respondents
Brand	24%	43
Recommendation	20%	36
Your needs	18%	32
Price	17%	31
Natural	13%	23
Commercial/Advertisement	4%	7
Face of brand	2%	4
Trends	2%	4

According to the chart, it follows that customers are mainly influenced by brand name, recommendation of someone else (mostly friends, family, then cosmetic experts), skin/hair type needs is on the third position. Price factor in the middle shows that customer is not very price sensitive and he is able to invest more in some kind of products (more in 5.1.7 Customer's ability for spending). It is surprising that advertisement and celebrity as a face of brand are not much important for customer, however we can confirm that or disprove it based on other results.

Its visibly seen high interest in natural products and products which are not tested on animals, which confirms the global trend of awareness of lifestyle and ingredients in products.

From this we can deduce, that **customer needs brand awareness or recommendation of someone who already tried it**, he/she doesn't want to try new things, which are not tested yet and surprisingly **his/her skin/hair needs are not the most important indicator.**

5.1.2 Commercial/Advertisement influence

As we have seen advertisement is not very important for customer, which confirms another chart.

Chart 2

Does advertisement influence your buying decision	%	No. of respondents
More likely no	46%	83
No	25%	45
More likely yes	20%	36
Yes	9%	16

In overall, 71% responded marked more likely no or no in terms if advertisement influence their purchasing behaviour, only 29% say that it influence somehow if they purchase the product or not. **The question is if it corresponds with the reality or customers are embarrassed to say the truth or the advertisement is hidden and they even didn't recognize they are influenced by it**. This claim, we can confirm or reject later, after another statistics.

5.1.3 Distribution channels preference

In this part of research, we have focused on the preferred way of purchasing cosmetic product.

Chart 3

Distribution channels preference		No. of respondents
Drugstore	29,5%	54
Perfumery	23%	41
Store of a brand	15%	27
Internet	13%	23
Pharmacy	13%	23
Salon	5%	9
Catalogue	1,5%	3

Almost **30% of respondent answered they most likely purchase cosmetics in drugstore. Reasons were because of the wide range of products for acceptable price.** The products**,** which are purchased in drugstores, are mainly body care, followed by hair care and makeup. Only 5% of respondents will buy perfume in drugstore, which says that they prefer invest more into perfumes and don't like mass products in terms of perfumes. The second most popular distribution channel is **perfumery, where respondents are mainly focused on purchase of perfumes, luxury products, or exclusive brands, which cannot be purchased somewhere else.**

The third place before Internet is surprisingly **Store of a brand**, where customers mainly pointed M.A.C, Clinique, Yves Rocher, NuSkin, Lancôme Institute, Korres or Khiels. They like **trained staff and advantages connected with membership.**

Internet on then fourth place is chosen because of low price and most of the customers buy perfumes and prestige hair care, because it is not usually available in perfumeries or drugstores.

Pharmacy is connected mainly with skin/hair needs, because **more than 30% of customers mentioned skincare problems** (sensitive skin, acne, dandruff).

Salon was chosen in terms of skincare/hair care and advises of cosmetic expert or hairdresser. Easier availability and customer don't need to search for product somewhere else, and he relies on opinion of an expert.

Only **1.5% belongs to catalogue purchase**, which is more conservative distribution channel. Customers choose from Avon or Oriflame and it was chosen in older age category (37-59 age).

5.1.4 Perfumery preference

In this part, we try to determine, which perfumery has the highest popularity among respondents and why. The results have been also used in "Competitive positioning of Douglas and its competitors" in analytical part.

Chart 4

Perfumery preference		No. of respondents
Sephora	57%	102
Douglas	30%	54
Marionnaud	12%	22
Fann	1%	2

This chart corresponds with reality on the Czech market, where number one among perfumeries holds Sephora, followed by Douglas, Marionnaud and Fann. Sephora has almost twice more respondents than Douglas, which shows the strong position of number one and far ahead from competition. Marionnaud and Fann have according to Sephora and Douglas negligible number of respondents, but it may be caused that respondents are mainly from Prague – Marionnaud's and Fann's advantage is in number of stores around Czech Republic and their presence where Douglas and Sephora do not occur.

The reasons why customers chose **Sephora were mainly because of wide range of products, wide range of brands offered,** especially exclusive brands like Benefit, Too faced, Bare minerals, then their advantage of **getting discounts and membership**, when they are informed about discounts and events. Respondents also like **design of a shop** and collection *Beauty to go*, designated for travelling.

Douglas, respondents choose as its best benefit high service, qualified staff, nice environment and exclusive brands especially Armani, Bobbi Brown and Sensai.

Marionnaud respondents pointed because of membership card or close locality to their home. The interesting finding is that respondents who chose Marionnaud live outside of Prague. The disadvantages of Marionnaud respondents see in relatively high prices according to other perfumeries.

Fann is not very popular and respondents who point this option say it was because there **is nothing closer to their homes**; they also complied about environment in the shop and unqualified staff.

5.1.5 Customer's ability for getting advice from consultant

This chart should show us whether respondents like if someone from perfumery advise them with their purchase or rather not, or they prefer shop by their own.

Chart 5

Do you prefer advise when you purchase product		No. of respondents
Yes	29%	52
Prefer to choose by my own	29%	52
More likely yes	27%	49
More likely no	15%	27

This finding was quite controversial, 56% of respondents prefer advise of someone else, 44% of respondents are against getting advise of consultant. 29% of respondents prefer to choose product by their own and don't want to be disturbed by consultants, 15% said they more likely no get advise of consultant.

It is half to half, where 29% of respondents said yes for consultants, 27% more likely yes are open to consultant.

5.1.6 Customer's spending

It is analysed how much is customer able to spend in certain cosmetic category, first in general, then according to his/her age category, the results are follows:

A. In skincare:

Chart 5

How much you are able to invest into skincare	
500-1000CZK per product (higher than average price)	49%
<500CZK per product (mass products)	37,5%
>1500CZK per product (prestige product line)	13,5%

The category 500-1000CZK per product in skincare is considered as more expensive, over 1500CZK per products in skincare category can be considered as prestige. Under 500CZK per product are mass brands. This result is connected with fact that respondents are young, 47% is 18 to 26 years old, 27% of respondents are in age of 27 to 36 years. Most of the products that suit needs of young skin do not include anti ageing and more advantage ingredients, therefore they are not the most expensive. Therefore we have to consider results according to the age group category and brand preference after.

Chart 6 – According to the age category

18-26	27-36	37 and more	Skincare
34%	46%	35%	<500CZK per product
57%	33%	42%	500-1500CZK per product
9%	21%	23%	>1500 per product

In comparison according to the age category, we can see **increasing trend of spending more into skin care with higher age**. At the age of 18-26, only 9% of respondents are able to spend more than 1500CZK per product, at the age of 27-36 years the percentage of respondents more than doubled to 21%, from respondents 47 years and older 23% are able to spend for prestige cosmetics, in percentage is not such a difference according to the previous age category. However, the trend is visible.

The middle class 500-1500CZK per product wins for the youngest 18-26 years; it might be connected with their brand preference. The youngest respondents do not need anti ageing and advanced care, but nonetheless they might prefer better (prestige) brands (**Chart brand preference).**

The minimum cost for skincare (under 500CZK per product) was chosen most by age category 27-36. They pointed they have started to use anti ageing products, however they switched to mass brands.

Another effect connected with results might be that 87% of respondents have university education, therefore at the age of 27 they are newcomers in their jobs and their level of income is lower and their investments flows to other costs connected with social security.

B. In makeup:

Chart 7

How much you are able to invest into makeup	
500-1000CZK per product	43%
<500CZK per product	39%
>1000CZK per product	18%

The price range (<500CZK per product) is considered for mass products, (500-1000CZK per product) is middle price category, it can be mixture of prestige and mass products, (>1000CZK per product) is considered for prestige products.

Chart 8 – According to the age group

18-26	27-36	37 and more	Makeup
41%	40%	38%	<500CZK per product
50%	30%	38%	500-1000CZK per product
9%	30%	24%	>1000 per product

In makeup category, most of the respondents mix prestige products with mass products. **82% of respondents are not able to invest more than 1000CZK for product. Only 18% are able to invest more than 1000CZK for product.** This means that makeup category is not the most important and respondents prefer save money and purchase products from mass brands.

If we consider age diversion, we can see that the highest costs for makeup is able to spend middle age category 27-36 years, only 9% in their 18-26 years are able to spend more than 1000CZK per product in makeup care, for this age category (18-26years) middle class wins (500-1000CZK per product).

Respondents in age of 47 years and more are more diversified into middle price category and mass product lines with equal share of 38%.

C. In hair care:

The price range (<200CZK per product) is considered for mass products;

(200-500CZK per product) is middle price category, but it can be mixture of prestige and mass products; (>600CZK per product) is considered for prestige products.

Chart 9

How much you are able to invest for hair care	
200-500CZK per product	47%
<200CZK per product	34%
>600CZK per product	19%

In hair care, respondents are not very extravagant. **81% of respondents are not able to invest more than 500CZK per product,** most of the spending goes for shampoo, to which they are able invest more. So here again applies that “middle gold way” wins.

Chart 10 – According to the age group

18-26	27-36	37 and more	Hair care
37%	29%	46%	<200CZK per product
46%	50%	38%	200-500CZK per product
17%	21%	16%	>600 per product

In Hair care the lowest price category (below 200CZK per product) is decreasing trend. In contrast to that in older age category 47 years and more, the demand for low price category (below 200CZK per product) again increasing. The middle price category (200-500CZK per product) is pretty stable among all age groups.

The highest price category (over 600CZK per product), starts at 17% (18-26 years respondents), for 27-36 years old increases to 21%, and in older age 47 years and more again decreases to 16%, which is similar percentage as for the youngest age category.

5.1.7 Customers ability to invest more into specific product

There is investigation whether respondents are able to spend more money than they marked in charts above, for specific type of product.

Chart 11

Ability to spend more for some specific product		
Skincare	34%	61
Makeup	24%	43
Hair care	18%	32
Perfumes	10%	18
I am not able to spend more for anything	10%	18

Concrete products:

Skincare – moisturisers, anti ageing care, eye cream, cleanser

Makeup – foundation, powder, eye shadows

Hair care – shampoo, conditioner

Perfumes – Armani Privé, Tom Ford, The Different Company

Body care – Lancôme

If we asked respondents if there is any category to which **they are able invest more than they had marked, the winner is with 34% skincare** – moisturiser, eye cream and cleansing products; **24% of respondents marked makeup** – ability to invest more to foundation, powder, mascara; **18% of respondents are able to invest** more then they market **into hair care** – especially shampoo and conditioner; **10% of respondents are able to invest more into perfumes** – Armani Privé, Tom Ford; **10% are not able to invest more for anything** and only **4% of respondents are able to invest more into**

body care – (respondents from category 47 years and older) specifically into Lancôme body care products.

In skincare category customers prefer prestige brands, in makeup and hair care they mix both – mass and prestige brands. It depends to their preferences - which certain product is important for them, then they are able invest more into it.

5.1.8 The most popular brands

In this part of research we investigated customer's preference in terms of favourite brands in each category according to the age group.

Chart 12 - For Skincare category:

Skincare	18-26 years	27-36 years	37-46 years	47 and more
1.	Biotherm	Clinique	Estée Lauder	Clarins
2.	Nivea	Bioderma	Clinique	Dermacol
3.	Neutrogena	Avene/Vichy	Vichy	Vichy

In age category 18-26 years, the most popular brands - Biotherm (1st place) and Neutrogena (3rd place) are medium price brands, sold in pharmacy. This trend may be caused that usually young people have problems with their skin and they are still on way to search the right product and brand for them; because in older age categories, these brands don't occur. Nivea is typically mass brand with long tradition, sold in drugstore or pharmacy, for low price.

In age category 27-36 years, the most popular brand is Clinique - American brand, higher prices of products, usually sold in perfumeries. For its popularity on Czech market it has its single stores. Bioderma, Avene and Vichy are pharmaceutical brands.

In age category 37-46 years, Clinique switched to second place and the highest popularity has Estée Lauder, which is French brand with long tradition, its products are mainly focused on anti ageing. It has also its single stores in CR. From all of these brands in the chart, Estée Lauder is the most expensive one. It may be connected with the fact, that women in 37-46 years are in productive age, and therefore they might have the highest income to afford the "most expensive" products.

In age category 47 years and more, the highest popularity has Clarins, which is very conservative French brand – its connected with their target age group (older than 35 years), higher prices for products. The second place belongs to Dermacol, which is with Nivea the only drugstore brand in the chart. However, Dermacol is typical Czech brand with long tradition and in last few years it went through many innovations, changes in management, marketing strategy and they had started implement on foreign markets.

Chart 13 - For Makeup category:

Makeup	18-26 years	27-36 years	37-46 years	47 and more
1.	Maybelline	Dermacol	Bobbi Brown	L'oreal
2.	M.A.C	L'oreal	M.A.C	Lancome
3.	Chanel	Bobbi Brown	Avon	Dermacol

In age category 18-26 years, the most popular brand is Maybelline - very mass drugstore cosmetics for reasonable price, their marketing strategy is focused on young customers. M.A.C is middle cost Canadian brand of professional makeup products, it has wide range of product portfolio, and therefore everyone can find what he/she wants. Especially young women wear more extravagant makeup and they like to experiment with makeup, therefore M.A.C can satisfy their needs. Chanel is prestige brand with luxury products, but also for higher prices.

In age category 27-36 years, the most popular brands are drugstore mass brands – Dermacol and L'Oreal. The middle age category doesn't rely on brands that much as the younger category. Bobbi Brown is available exclusively in single brand store or Douglas perfumery, belongs to the prestige brands for higher price. Its can be compared to M.A.C.

In age category 37-46 years, the most popular brands - Bobbi Brown and M.A.C are chose because of their wide range of portfolio and quality of products for reasonable price. New brand occurred in chart – Avon, the catalogue brand, now also available on Internet for low price.

In age category 47-59 years, the most popular are makeup brands with long tradition, brand awareness, and reputation and conservative product portfolio. Lancôme is typical example - its luxurious brand, which main target group are customers older than 30 years.

In overall it is visible mixing of prestige and mass cosmetics in all age categories.

Chart 14 - Hair care:

Hair care	18-26 years	27-36 years	37-46 years	47 and more
1.	L'oreal	L'oreal	Redken	L'oreal
2.	Redken	Alterna	Murphy	Schwartzkopf
3.	Garnier	Redken	L'oreal	Garnier

The most popular hair care brands in age category 18-26 years were mixture of luxury brand in the middle – Redken, and two mass brands from drugstore L'Oreal and Garnier. L'Oreal has long tradition in hair care, it has wide product portfolio divided into professional care and mass care products sold in drugstores for low price.

In age category 27-36 years, L'Oreal holds first place, however there are two prestige hair care brands – Alterna and Redken. It says that respondents at middle age are able to invest more into prestige brands than the younger customers. It's opposite situation to makeup category.

In age category 37-46 years, two luxury hair care brands moved to first and second place – Redken and Murphy, L'Oreal dropped to the third place. We can see trend that older age categories rely on prestige brands in hair category more than young customers.

In age category 47 years and more, trend of mass brands is coming back. On top position are just drugstore brands – L'Oreal and Schwartzkopf.

Chart 15 - For Perfumes category:

Perfumes	18-26 years	27-36 years	37-46 years	47 and more
1.	Dior	Dior	Lancome	Chanel
2.	Chloé	Hugo Boss	Dior	Versace
3.	Chanel	Versace/Chanel/Armani	Versace	Lancome

The most popular perfume brands for age category 18-26 years are Dior, Chloe and Chanel, all are very well known traditional luxury brands, however they smartly made collections for younger customers – Miss Dior, Chanel Chance or Love Chloe, which are lighter perfumes, suitable for young women.

In age category 27-36 years, Dior traditionally holds the first place and new brands occur in the chart – Hugo Boss, Versace, Armani.

In age category 37-46 years Dior was switched to Lancôme, but still the same brands occur.

In age category 47 years and more the most popular brand is Chanel, the oldest age category marked Chanel n.5 as their favourite perfume, which holds the world position number one for more than 60 years. [34]

Char 16 - For Body care category:

Body care	18-26 years	27-36 years	37-46 years	47 and more
1.	Dove	Nivea	Yves Rocher	Nivea
2.	Nivea	Dove	L'oocitane	Dermacol
3.	Garnier	Yves Rocher	Avon	Dove/Avon

In youngest age category (18-26 years), the most popular brands for body care are brands from drugstore. Respondents don't want to spend much money for this category.

In age category 27-36 years there is small change – Nivea is number one, Dove is second and third is Yves Rocher, which is French brand, sold in single stores. They have very good settings of customer's membership.

In age category 37-46 years, Nivea and Dove disappeared. This age category is able to invest into luxury body care. Avon is instead of drugstore brands.

In age category 47 and more, Nivea took the first place again, second holds Czech Dermacol, third is Dove with Avon.

Summary of most popular brands

In overall, the most popular brands in skincare are Biotherm, Nivea, Clinique and brands from pharmacy like Vichy, Bioderma, Neutrogena and Avene.

In makeup category, the most popular brands are M.A.C, Maybelline, Dermacol, Chanel, Bobbi Brown and L'Oreal.

In hair care category, the most popular brands are L'Oreal, Redken, Garnier, Alterna.

Among perfumes the leader is definitely Dior, followed by Chanel, Chloe, Hugo Boss, Lancôme and Versace.

In body care there are just few leaders from drugstore mass brands Nivea, Dove, Garnier and Dermacol.

Obviously catalogue brands like Avon or Oriflame are popular only for respondents older than 37 years. It confirms the global trend of highly decreasing popularity of distribution channel through catalogue, which was popular in Czech Republic mainly in 90s. Today catalogue brands are desperate and they try to reach its customers through Internet and not just through their Sales representatives. (Chapter B. Distribution channels)

All of the brands are very well known with high consciousness, long tradition and high advertisement spending. **This can confirm the claim that people trust more to brand names, advertisement and they are not very able to switch to another brand**. They are very conservative, the only categories, where customers were able to switch brands were perfumes and makeup, but in makeup they are not very extravagant in spending.
Over 71% of respondents said they are not influenced or more likely no influenced by advertisement, however the brands they prefer are companies with huge amount of spending into advertisement. The brands mentioned, which are not mass brands and they do not profile with spending for advertisement were: Annayake (prestige Japanese brand, not available in CR), Kiko (Italian brand, middle price category, high standard of quality, not available in CR), Ryor (Czech brand, low price, high quality of products, long tradition), The Different Company (French brand for luxury perfumes), RBR (prestige English makeup brand, high quality of products, higher price).

5.2 Evaluation of Questionnaire

The summary of the results from survey, in terms of purchasing behaviour: Czech customer is influenced mainly by:

- **Brand name** - its awareness of a brand and tradition
- **Recommendation of someone he knows** – friends, family members etc.
- **Personal needs for skin or hair type** are on third place; surprisingly they don't play the main role.

Brand awareness and wide consciousness about brand is connected with great marketing strategy and advertising. The customer, **even if he/she does not want to admit or he/she doesn't aware of it, is highly influenced by commercial and advertising.** Only 29% of respondents admitted they are influenced by advertisement. The brands, which customers prefer are products of mass marketing or brands, which puts enormous costs for advertisement in media, billboards, campaigns, or celebrities as they spokes persons.

Global trend of **increasing interest in natural products** and products, which are not tested on animals, is also recognizable on Czech market. 23 out of 180 respondents marked priority that product must be natural or that they prefer natural products. The respondents are able to search for it.

Czech customer is still traditional and **prefers personal shopping in physical stores**. In respondent's point of view, Drugstore is the best way for purchasing cosmetics; there is wide range of products from all categories, usually mass brands for lower prices. The particular drugstores, which respondents marked, are DM and Rossmann. Slightly fewer respondents prefer perfumery, where is more specific range of luxury cosmetics products. Third most popular distribution channel was Store of a brand.

The Internet is surprisingly not that popular, **Czech customers are still sceptica**l **and prefer to see and try products before they purchase it.**

In terms of perfumeries, **Sephora is the leading number one** not just in terms of their market share in Czech Republic, but also for its popularity among customers. Respondents mainly like wide range of products – from brands for acceptable price to luxurious brands, and discounts.

Typical Czech customer likes to get advise from cosmetic adviser, however there is huge number of respondents (44%) who are strictly against. It is connected with sceptical character of Czech customer and his super saturation is constantly under pressure from ambient pressure.

In terms of spending, **in all categories won the "gold middle way"**. Surprisingly hair care is the category, where most of respondents are willing to invest for the most expensive products. Youngest age category 18-26 years is able to invest most into hair care, age category 27-36 years invest most into makeup and age category 37 years and more invest most into skincare and makeup.

There is relationship between older age and purchasing of luxury skin care. The older respondent is, the higher demand for prestige skincare products is, and therefore higher spending for it. In opposite to that, the youngest age category (18-26 years) has the highest number of respondents, who are not able to invest more than 500 CZK per product of skincare.

However 34% of respondents are able to invest more than they had marked into skincare, especially into moisturiser, cleansers and eye creams. Another category, where respondents are able invest more is makeup, especially foundation and powder. From this we can make conclusion that respondents care about what they "wear" on their skin and demand higher quality of products in terms of facial care.

In terms of brands, in overall **respondents purchase very well known brands, usually mass market with high cost into advertising and marketing**. The most popular brands in:

- **Skincare** are Nivea, Clinique and pharmaceutical brands like Vichy, Neutrogena or Biotherm.
- **In Makeup** is very popular mixing prestige cosmetics with mass market, drugstore brands L'Oreal, Dermacol, luxury brands M.A.C and Bobbi Brown.
- **Hair care** there is also trend of mixing prestige brands with mass market, drugstore brands like L'Oreal, Garnier and luxury brand Redken or Alterna.
- **Perfumes** the winner down the line is Dior. It's the most popular brand almost for all age categories, followed by Chanel and Versace. Respondents rely on tradition brands and they are less able to switch brands.
- **Body care** wins drugstore mass brands Nivea and Dove. Only category 37 years and more is able to choose more expensive brands.

6. Syntheses and Recommendation

6.1 Syntheses

From completing the results of whole Diploma Thesis, it can be summarized a vision of the Cosmetic market in Czech Republic and characteristics of purchasing behavior of Czech customer. Study illustrates cosmetic industry as a whole, but as we know from other fields, each segment, country or region has its specifics and we focused on Czech Republic and characteristics of Czech customer. The main goal of the Diploma Thesis was to find answers on aims:

First of the aim was "Evaluation of the main cosmetic players on Czech market".
1a - RQ: Who has the strongest position on the Czech market?
The strongest position on the market has Sephora, which is strongly dominant leader. It has the highest market share, highest revenues, highest rating among customers. In near future is not expected that Sephora will be threatened by any of its competitors.

1b - RQ: What are pros and cons of each competitor?
The main competitor, and number 2 on the market, is Douglas, which is more conservative, less attractive for customers, however they spend huge amount of money into marketing, and they cooperate with many partners, which is the main target where to attract new customers. Douglas started with Internet shopping, which becomes popular among customers and it can be their advantage against Sephora. Their pros are client service, nice environment, design of shop, Internet shopping, qualified staff, exclusive brands – mainly Armani, Sensai, Bobbi Brown, Carven. Their cons are membership, no offer of discounts and higher prices – therefore outflow of customers to another perfumery, limited product portfolio. Nevertheless, Douglas has improved during the last 5 years and it is expected their continuous increase. In near future they plan to open new branches and therefore it might be expected increase of revenues and inflow of new customers. The other competitor, number 3 on the market, is Marionnaud. Marionnaud's pros are their membership, which can be applied also in foreign countries. None of the other perfumeries have this benefit. Other pros are friendly atmosphere, nice looking shops, and high number of shops – 38, which are spread around whole Czech Republic. Their cons are higher prices, low diversity of product portfolio, small number of exclusive brands. Marionnaud

stays in average, it should improve their product portfolio and services to customer, therefore it will improve or maintain its position on Czech market. The last of the main competitors, number 4 on the market, is Fann. Fann is original Czech perfumery, therefore it is a pity that its on a deep misdemeanor.

Fann's pros are their tradition as a Czech company, salons – where they provide cosmetics services, huge number of stores – 43, spread around whole Czech Republic, internet shopping. Their cons are design of shop, brand reputation - low marketing strategy, membership for customers. Fann should be more focused on customer by providing better services, preferable membership and mainly better marketing strategy, when Fann will get a "new fresh" face that will attract new customers and therefore increase interest about Fann. Main target group are people from small cities, where the only benefit of Fann is that none of the competitors operate there. It's not enough, therefore Fann is in long-term decline, their revenues are slim (in comparison to competitors) and they have to close 5 of their branches this year.

The second aim was to determine specifics in purchasing behavior of Czech customer. 2a - RQ: How the biggest players in cosmetics (Sephora, Douglas, Marionnaud, Fann) stand at customer's preference?
Our research confirmed reality on the market, where positions of the perfumeries correspond with customer's preferences. However each of the perfumery has different strategy and different clientele. According to our respondents, the highest rate 57% or 102 of respondents prefers Sephora. As its benefits they highlighted wide range of products and brands, great number and quality of exclusive brands – mainly Benefit, Helena Rubinstein, Too Faced, Nars, Michael Kors, collection Beauty to go, price of products and benefits connected with membership – big discounts (20% or 3+1 exclusive product for free), nice and fun environment of shop or services like Brow bar or Make-up artists. The second was Douglas, for which voted 30% or 54 of respondents. The number is twice lower than for Sephora. Respondents mainly highlighted services of Douglas, their nice and qualified staff, and high quality of exclusive brands mainly Bobbi Brown, Sensai, Armani. Third place at customer's preference by 12% or 22 respondents, has won Marionnaud. Customers like their availability, membership – which can be applied abroad and fair value of discount.

Fann voted just 1% - 2 respondents out of 180. Respondents who chose Fann answered that the only reason why to go to Fann is because nothing is closer to their place.

2b - RQ: Is there relationship between older age and purchase of prestige cosmetics? According to the Chart 6 and Chart 12, there is relationship between spending and increasing age of respondents. In chart 6, where the focus is on **Skincare, we see increasing trend of spending more into skin care with higher age**. At the age of 18-26 years, only 9% of respondents are able to spend more than 1500CZK per product, at the age of 27-36 years the percentage of respondents more than doubled to 21%, and for respondents 47 years and older 23% of them are able to spend for prestige cosmetics, in percentage is not such a difference according to the previous age category (27-36 years). However, the trend is visible and confirms the claim.

In Chart 12, where the focus is on Skincare brands, respondents 37 years and older marked prestige brands on the first places - Estée Lauder, Clinique or Clarins which are luxury brands with high price level of products.

2c - RQ: Are there differences in spending on cosmetics by type of product? In Chart 11 it has been investigated if customers are able to spend more money for some kind of products. From research follows that **86% of respondents are able to spend more for some specific product, only 10% of respondents are not able to spend more for anything**. Most of them would invest into Skincare – 34%, 61 of respondents. The main products were quality face moisturizers, eye creams and cleansers. 24% or 43 of respondents would invest into Makeup. Concrete products were foundation, powder, eye shadows, and mascara. 18% or 32 of respondents would invest into Hair care, mainly shampoo or conditioner. 10% or 18 of respondents would spend more for Perfumes – luxury brands of essence perfumes like Armani Privé, Tom Ford or Chanel.

2d - RQ: Which distribution channels are preferred?
From Chart 3, the results show the most preferred distribution channel for customer. It is interesting that still the classical personal in-store shopping (85.5%) is more popular than internet or catalogue shopping (14.5%). The most popular distribution channel for customers is drugstores. 29.5% or 54 of respondents prefer this way of purchasing cosmetics, because of their wide variety of products and availability. The concrete stores

were DM, Rossmann or supermarket. The second place is Perfumery, for which voted 23% or 41 of respondents, as a best way for purchasing perfumes and luxury cosmetics. Third place is Store of a brand, 15%, 27 of respondents marked this option. They prefer qualified staff, wide range of products of this concrete brand and membership benefits. Concrete stores are M.A.C, Clinique, Yves Rocher, NuSkin, Lancôme Institute, Korres and Kiehls. Internet is surprisingly on the fourth position also as Pharmacy. 13%, 23 of respondents prefer this way of distribution. In terms of Internet, respondents chose because of low prices. Customers mainly buy perfumes and prestige hair care, because it is not usually available in perfumeries or drugstores. The most popular internet portal is Parfums.cz Respondents, who chose pharmacy, were mainly because of their skin/hair needs; 30% of respondents mentioned skincare problems (sensitive skin, acne, dandruff). Salon on fifth position of preferred distribution channel chose 5% or 9 of respondents, was chosen in terms of skincare and advises of cosmetic expert or hairdresser. Easier availability and customer doesn't need to search for product somewhere else, and he/she relies on opinion of an expert. The most unlikely preferred distribution channel is catalogue purchase. Only 1.5%, 3 respondents prefer catalogue purchase, because of their favorite brands – Avon and Oriflame. Respondents, who chose this way, were in older age category (37-59 age), which corresponds with conservative and old-fashion way of catalogue distribution.

Third aim was to determine trends and indicators that influence customer's purchasing decision.

3a - RQ: What influence customer's decision for purchase?

In Chart 1, we analysed which indicators influence customers buying decision. The outcome is that the most important indicators for customer are:

- Brand – 24%, 43 respondents rely on brand, brand awareness, tradition of a brand
- Recommendation – 20%, 36 of respondents rely on opinion of their friends, family, experience of their surroundings
- Their needs – 18%, 32 of respondents put on the first place their hair/skin needs, according to which they chose the suitable products.
- Price – For 17%, 31 of respondents price is important indicator.
- Natural products – prefer 13%, 23 of customers. They care about natural ingredients inside the products, and some of them if the product is not tested on animals.

The less important factors are:

Commercial/Advertisement –Only 4%, 7 of respondents says that commercial is important for their buying decision, 4 (2%) of customers influence their idol as a Face of a brand and 4 (2%) influence Trends.

In Chart 2, is focus on Commercial/Advertisement influence, where, 71% respondents marked more likely no or no in terms of if commercial/advertisement influence their purchasing behaviour, only 29% say that it influence somehow if they purchase the product or not. However, according to other sections of research, focused on preferred brands, we have found that customer prefer mainly brands, which are enormous spenders for marketing and advertisement. It follows that respondents are "ashamed" to admit they are influenced by advertisement, or they subconsciously choose brands, which come them familiar.

Face of a brand is highly connected with advertisement and marketing strategy, search the right person, might attract the target group of customer. Great example is Lancôme, where its Spokes person for many years is actress Julia Roberts. Its connected with target group of customers – women older than 30, who wants to look elegant, young and chick even if they are not 20 and they are able to spend more into cosmetics.

In conclusion the determined characteristics of Czech customer are:

- Conservative – In terms of choosing tradition brands with long tradition or high brand awareness, in terms of distribution channels, customer is distrustful and prefers to chose product and see it on "his own eyes" or according to experience of his close surroundings.
- The most money he/she is able to invest into skincare.
- In Makeup and Hair care is popular to mix higher value goods, with low price products.
- Czech customer gives on discounts and benefits – connected with Price indicator, which is one of the main important indicators for purchase.
- Increasing demand for natural products.
- In terms of brands the most popular are French brands (L'Oreal, Dior, Chanel, Lancôme, Vichy,), mass-market brands (Nivea, Dove, Garnier), Czech brands (Dermacol).

- Younger customers are more open into new brands, especially in makeup category – M.A.C, Bobbi Brown.

6.2 Recommendation

After a thorough analysis of the data, the following recommendations are offered:

1. This research study suggests that the main cosmetic players on the Czech market are Perfumeries. Number one is Sephora, second Douglas, third Marionnaud, and fourth Fann. Increasing tendency has Sephora and Douglas, stable position has Marionnaud, and decreasing tendency has Fann. Sephora should expand their branches; Douglas should expand their product portfolio and improve membership; Marionnaud should decrease prices, improve the design of its stores, membership and services. Fann should close some of their branches to stabilize their financial situation, improve membership, product portfolio, design of shop and training for employees. There is an increasing trend of Internet shopping and therefore a threat from Internet portals.

In terms of Czech customer purchasing behavior:

2. The main indicators that play role are brand name, recommendation and experience of friends, family or close surroundings, skin/hair needs, and price. Price is not the most important factor for customer, as the skin/hair needs; even there are a significant number of respondents who admit skin care problems. Increasing importance has natural products, which is connected with the trend that people are more aware about their lifestyle, and therefore about the ingredients in products and environmentally friendly products.
3. Czech customers are very conservative
A, prefer personal shopping in physical stores. The most popular way of distribution for mass products are drugstores, for prestige products are perfumeries or store of a brand.
B, are brand loyal. Their preference is in brands with high brand awareness and long tradition. Younger customers, less than 40 years, are able to experiment, mainly in make-up.
4. Czech customers are influenced by marketing and advertisements, even if they don't like

to admit it or they are not aware of it. Therefore investment into marketing strategies and promotion may be beneficial for the company.

5. The Czech customer is price sensitive; he likes purchasing with discounts, in actions or other favorable events, when he gets feeling of “advantageous purchase”. For this reason companies should be oriented on membership and services provided to customer.

6. There is a relationship between increasing age and purchasing of prestige products. The older respondent is, the higher spending for skincare products and higher preference in prestige brands. Overall, skincare is a category where all respondents are able invest more.

7. In terms of trends, skincare has increasing potential for sales. Increasing global interest for Asian skin care products is small, but visible and near for Czech customers. Nevertheless, French brands have still the highest popularity.

7. Conclusion

To summarize the whole study, the cosmetic industry is defined as a highly increasing and competitive business with a few big players on the market. To improve their position on the market they must follow global trends, innovate and develop their know how. The Czech Republic is definitely not the biggest in terms of market volume; therefore it is not seen as a very important market in Europe.

The main leader on the Czech market is Sephora perfumery; it holds the first position in market share, revenues and customer's preference. The trend of internet shopping is increasing, but still its not the main driver. In terms of Czech customer's purchasing behavior on the market of cosmetics, the Czech customer is very conservative, price sensitive, influenced by advertisement – but he is unlikely to admit this. His buying decision is mainly influenced by brand, recommendation of someone he knows, his skin needs and price. The spending for product category differs according to the age. Each generation preferences of spending differ according to cosmetic category. However, all respondents are most likely able to spend more money for skincare. There is a relationship between higher expense for skincare and older age – an increasing trend of spending more for skincare and investing into prestige products with increasing age. The customer's preference in terms of brands is very conservative, loyal and skeptical– respondents choose mass market brands or brands, which have high brand awareness and a long tradition. Only the youngest customers (18-26 years) are open to new brands and experimentation. The Czech customer is price sensitive, even if it is not the main priority, he likes to shop in discounts and he likes additional services – getting gifts for purchase, getting samples, ability to use make-up artist, invitation to events, discounts.

In the near future it is expected an increasing importance of global trends – popularity of natural products, increasing demand for men's skincare products, internet shopping; thanks to the young generation it is expected the Czech market will be more open for new brands and customers will be less conservative and skeptical. The market will become more global oriented and the differences among other EU nation's purchasing behavior will be smaller.

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9. Appendixes

List of Appendices

Appendix 1: SURVEY

1. Age 18-26, 27-36, 37- 46, 47- 59, 60 and above
2. GENDER: MALE/FEMALE

Questions:
1. Do you buy products from some of these categories?
Skincare/Hair care/Makeup/Body care

2. What brands you buy or prefer from each of these categories:
Open question
Skincare:
Hair care:
Makeup:
Body care:

3. What are indicators according you decide to buy a certain product?
More answers possible, Open question
Brand name/ Price / Recommendation of someone else/ Advertisement/ Celebrity as face of brand or product/Your skin needs/ Trends/ Something else- what? And why?

4. Does advertisement affect your buying decision? Yes/No

5. How much you are able to spend for cosmetics?
Skincare: <500CZK, 500-1500CZK, above 1500CZK per product
Makeup: <500CZK, 500-1000CZK, above 1000CZK per product
Hair care: <200CZK, 200-500CZK, above 600CZK per product

6. Are there products to which you are able invest more? Open Q.

7. Where do you buy it?
Skincare/ Body care: Internet/ Store of this brand/Drug store/ Supermarket/ Perfumery/ catalogue (Avon, Oriflame)/ Door to door sales/ Cosmetic or specialized salon/ Pharmacy

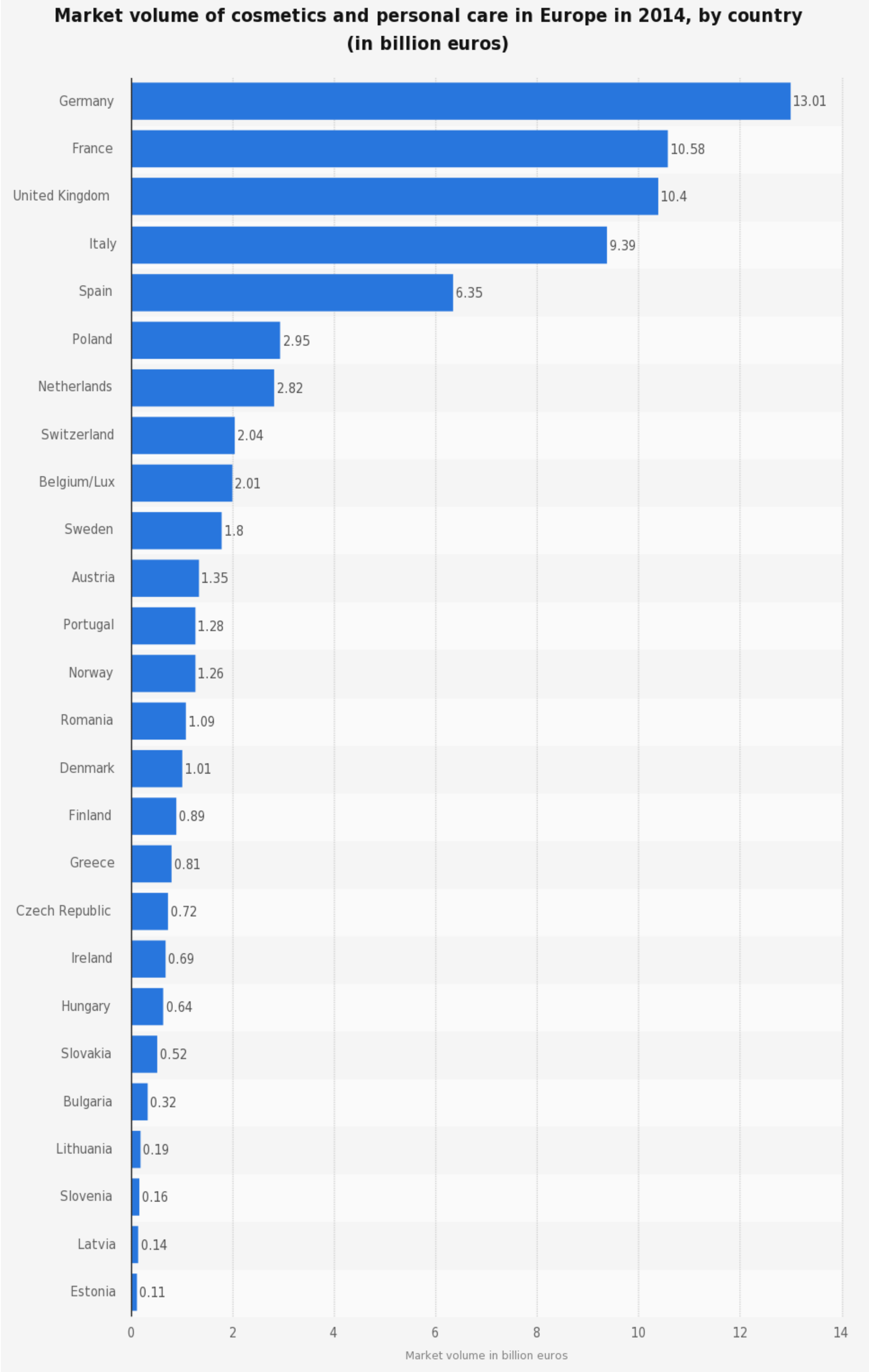
Makeup: Internet/ Store of this brand/Drug store/ Supermarket/ Perfumery/ catalogue (Avon, Oriflame)/ Door to door sales/ Cosmetic or specialized salon/ Pharmacy

Hair care: Internet/ Store of this brand/Drug store/ Supermarket/ Perfumery/ catalogue (Avon, Oriflame)/ Door to door sales/ Hair salon/ Pharmacy

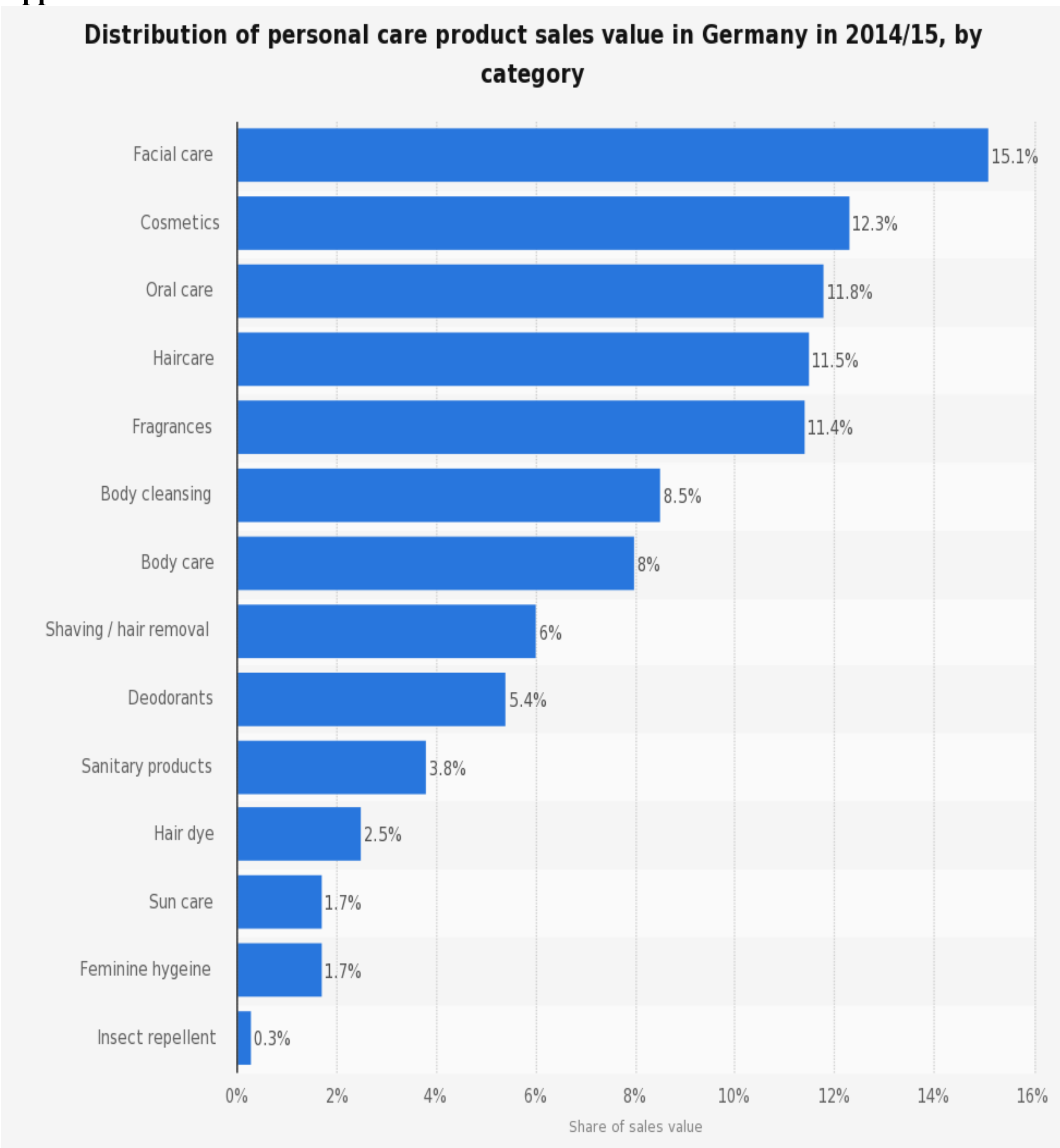
8. Are there some products you would like to buy now?
Open question

9. Is there some brand/ product that you are missing on Czech market?
Open question

Appendix 2: *(Source: Market volume of cosmetics EU. Statista 2015)*

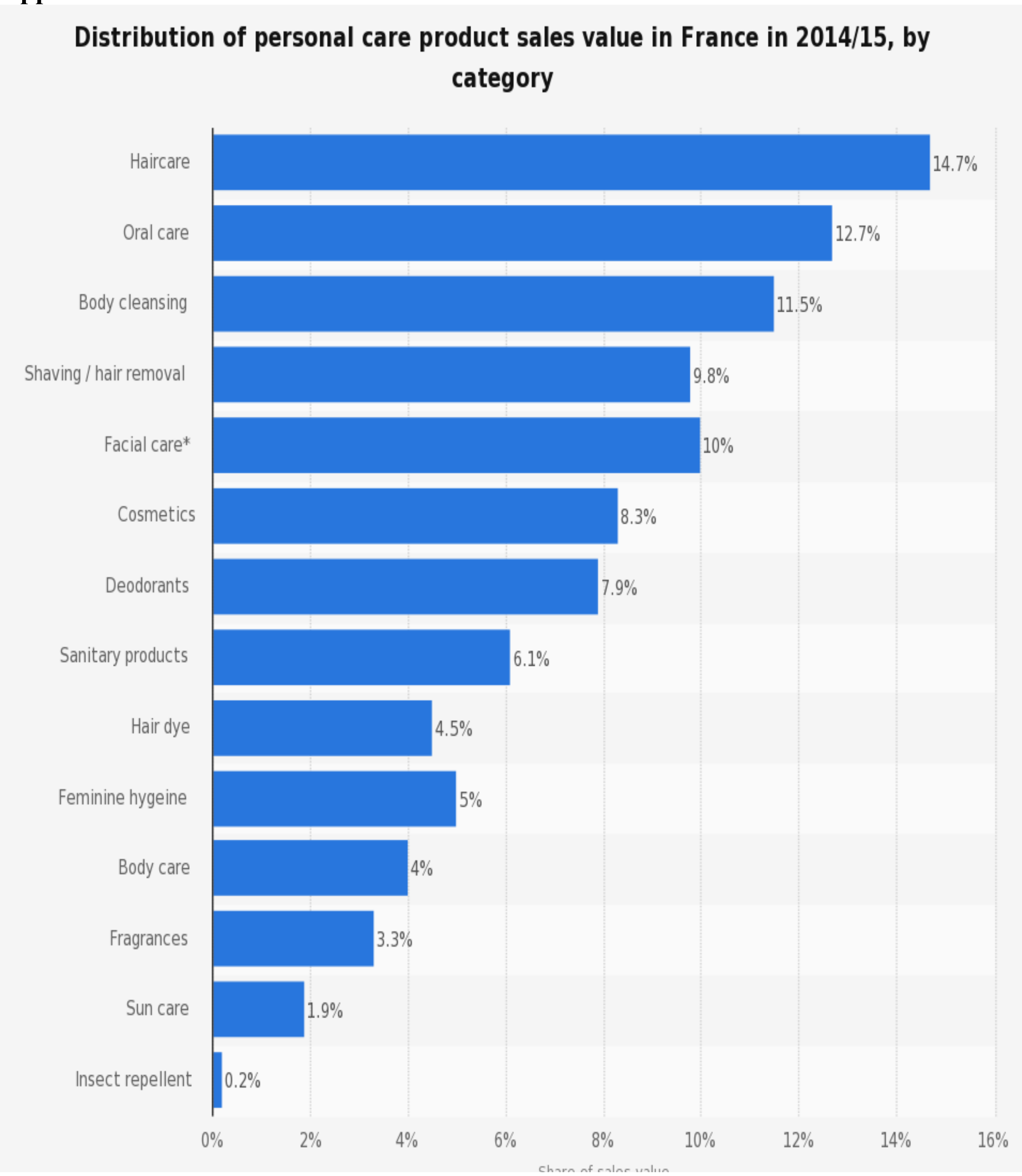


Appendix 3:



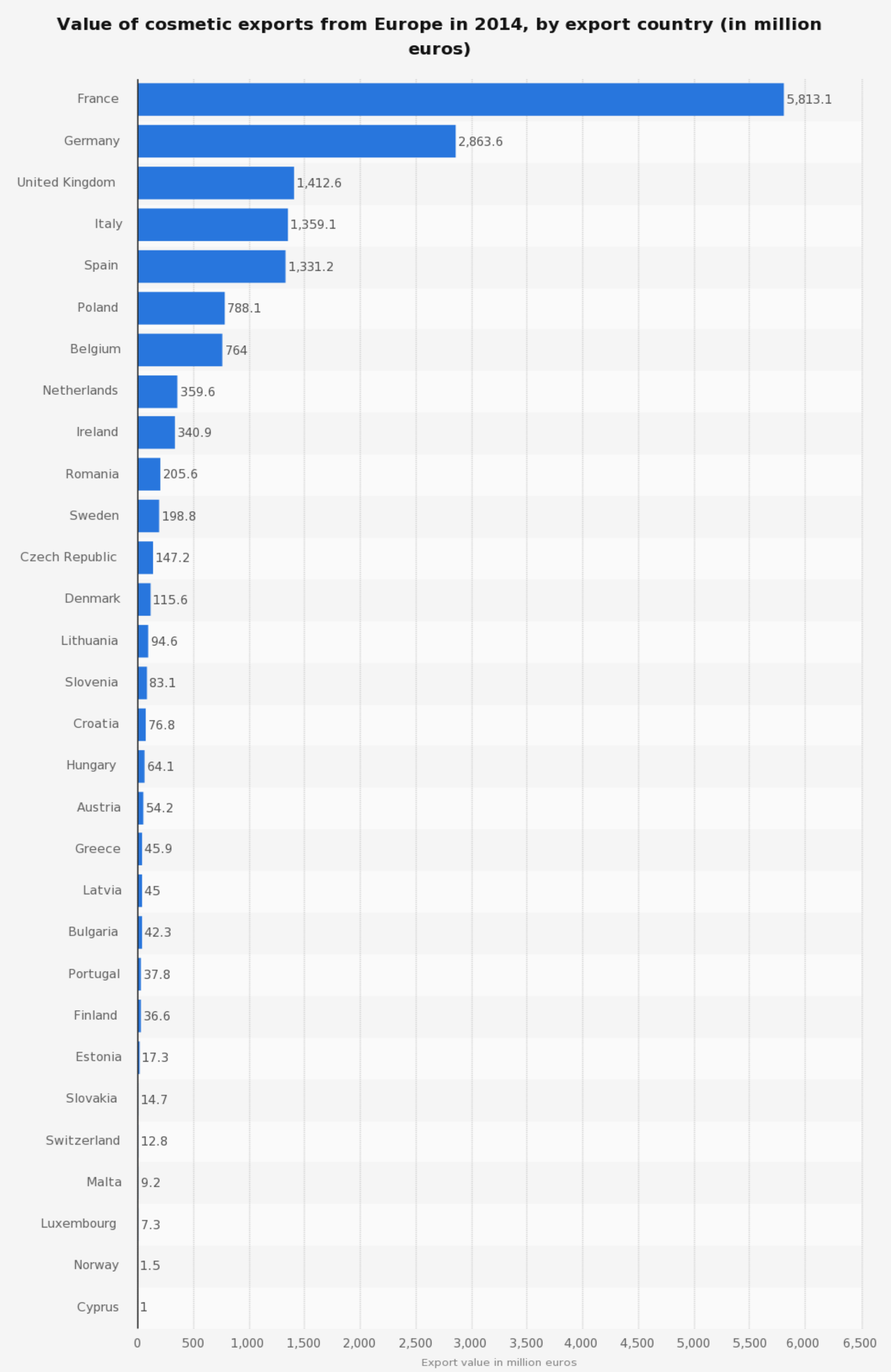
Source: Personal care in Germany. Statista 2015

Appendix 4:

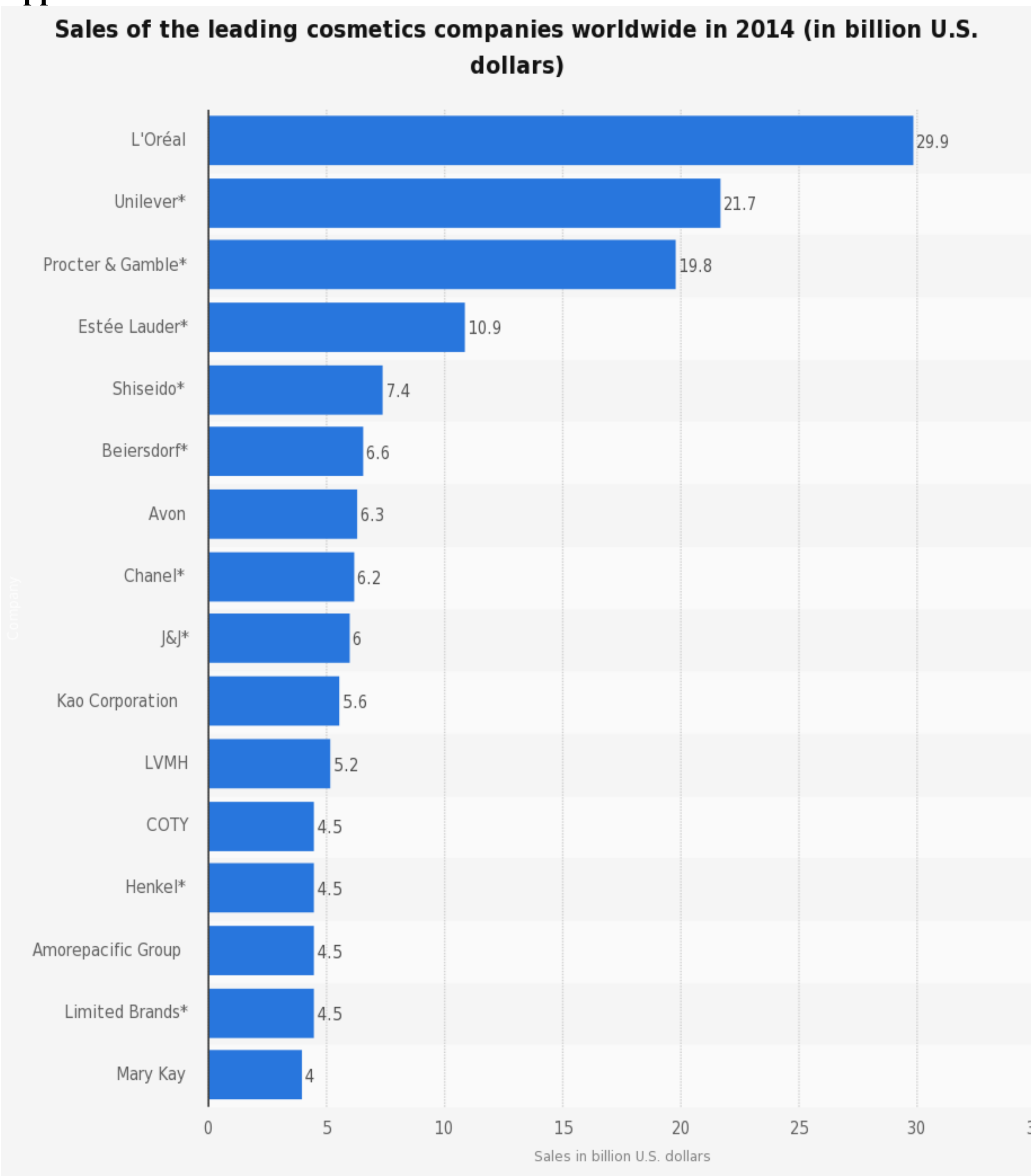


Source: Personal care in France. Statista 2015

Appendix 5: *(Source: Value of cosmetics export from Europe. Statista 2015)*



Appendix 6:



Source: Sales of leading cosmetic companies worldwide. Statista 2014

Appendix 7:

History Of Douglas

The name Douglas originates from Scotland emigrant John Sharp Douglas, who founded Hamburg's first perfumery and soap factory in 1821. From this day, fine soaps and perfumery products were manufactured in the Hanseatic city under the Douglas brand and increasingly sold in proprietary shops.

Another milestone followed in 1910 when a contract with the Hamburg-based company J.S. Douglas Söhne was signed. However, the roots of today's Douglas go back to the year 1969 when the Hamburg-based perfumeries were acquired by Hussel AG under the aegis of the CEO of the time, Jörn Kreke, who turned Douglas in Germany into a national brand. Perfumeries in the Netherlands, France, Italy, Switzerland, Spain and Portugal were added in the 80s and 90s. Poland and Hungary, Monaco, Slovenia and the Czech Republic, Turkey, the Baltic States, Romania, Bulgaria and Croatia followed from 2001.[12]

Since the year 2000, Douglas started with Internet shop. It operates separate online shops in many European countries where clients can select from an extensive brand and product offering in the perfumery, personal care, make-up, accessories and decoration segments.[12]
"In 2012, the Kreke family and Advent International submitted a public takeover offer to the remaining shareholders in a bid to acquire the outstanding shares of the listed parent of DOUGLAS Group, DOUGLAS HOLDING AG, which at the time also owned the companies Thalia, Christ, AppelrathCüpper and Hussel.
The year 2014 also saw a number of operating milestones: Douglas took over the French perfumery chain Nocibé and extended into Norway. As a result, Douglas now has a presence in 19 European countries."[12]
Where Douglas operates/has its branches – Germany, Austria, Czech Republic, Slovakia, Netherlands, Switzerland, Italy, Spain, Portugal, Turkey, Croatia, Poland, Baltic States, Monaco, Slovenia, Hungary,Romania, Bulgaria and thanks to the purchase of Nocibé it operates in France and expanded to Norway and it made competitor to domestic perfumery chain Sephora.