



## EIBN Sector Reports



# Cosmetics

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## Methodology

This desk research highlights the opportunities for investors and outlines the industry's characteristics (e.g. market size, growth potential), the structure of the market, key stakeholders and major providers, future trends, regulations, and existing challenges.

In preparing this report, EIBN makes use of wide ranging literature, data sources, and methods. General information about the medical devices market was gathered from publicly available sources; news articles, official company websites, publications, the Ministry of Health and the Ministry of Industry of the Republic of Indonesia, as well as websites providing prediction based on statistics data. In addition, we have also gathered information some local market stakeholders and interviewed them if necessary.

In some instances, the latest official data has not yet been published and the most recent data is used, for example, when data and figures were still unavailable for 2019/2018, we instead used data from the previous years. References also denote where the data was retrieved from.

This report begins with an overview of Indonesia's cosmetics industry, including size & growth in the domestic industry, consumer profile, category classification, distribution channels & marketing, product trends and main trading countries for imports and exports. The report also identifies notable business players in the market, such as large domestic manufacturer, importers and distributors, toll manufacturing service providers and other brands which have considerable shares of the market. Business opportunities in Indonesia's local market are examined and there is also discussion of the regulations and standards that apply. Finally, the report outlines relevant contacts and upcoming exhibitions.

## Executive Summary

As Southeast Asia's largest economy, with a GDP of not less than USD 1.016 trillion, a population of exceeding 260 million and rising incomes, analysts predict that Indonesia will emerge to become one of the top five markets especially for cosmetics products in the next 10-15 years. However cosmetics market in Indonesia is considered a highly competitive place hence the creation of a strong brand through promotion is recommended for substantial entry into the market. Nowadays Indonesians are more conscious to personal image and fashion than before. And for all cosmetics categories such as hair care, skin care, makeup, fragrance and hygiene products, 75% of Indonesian women prefer beauty products made with natural ingredients. Indonesian customers in general are also attracted more to those brands of foreign and foreign-like than locals.

In Indonesia, personal care and cosmetics are sold through various mediums including specialty stores, drug stores, department stores, supermarkets, direct marketing (MLM), skin care clinics, and beauty salons. But recent trend shows that Indonesian cosmetic products marketed through social media grab significant amount of market share. There is also a trend by producers to make their products appear and felt more premiums for consumers This product is targeting the masstige ("mass" and "prestige") market which is the largest cosmetics market zone in the country and is anticipated to maintain strong growth. Masstige product refers to those of "more expensive than mass-produced products, but more moderately priced compared to prestige products."

Imported cosmetics mainly target middle-to-upper economy class population and are dominated by products from Europe, Japan, South Korea and the United States. Products from Thailand, South Korea and Malaysia, meanwhile, target specifically the middle class ones. As for the products produced in Indonesia, not only they are for domestic demand, but they are also subject to export with destinations include ASEAN, African and Middle Eastern countries. Even some local manufactured brands now try to reach Australia and Latin America.

The fruitful cosmetics business in the archipelago has been enjoyed by some national brand players such as Mustika Ratu, Wardah and Sariayu Martha Tilaar. Besides these, there are also international brand who invested in local factories such as Unilever, Mandom and L'Oréal. The other famous international brands which enter and distribute their products in Indonesia are including those of from Europe, America, Japan and South Korea align with Indonesian consumers' tendency in preferring global brand or popular culture trend. Smaller local brands like Make Over, PAC, Polka, Rollover Reaction, BLP, Mizzu, ESQA Cosmetics and Mineral Botanica also showed promising sales which means that Made-in-Indonesia brands can strive in the fierce competition and succeed in getting their portion of market share especially in the make-up sector.

Great opportunity exists in the Indonesian cosmetics sector for the fact of the country's huge and growing domestic market, competitive cost of manufacture and consumers' preference over international brand and the made-in-Indonesia products. Nonetheless, challenges in this sector also still remain such as the existence of Illegal and halal products and other technical constraints which includes infrastructure readiness for verification, synchronization with international standards and certification bodies as well as the local human resources.

## Introduction

Today, make-up and personal care are increasingly becoming integral part of Indonesian lifestyles. Many are getting more and more concerned on their well-being especially when it comes to cleanliness and appearance. Some of the reasons for this are including improved awareness on hygiene, income level and influence by popular culture. Supported with facts that the country is the largest market in Southeast Asia and fourth biggest population in the world (269 million in total of which 51% use internet and a large 135 million are women), cosmetics industry is indeed an attractive sector for foreign and domestic investors.

As one of the world's biggest economy nation with Gross Domestic Product (GDP) of more than USD 1 trillion and GDP growth rate of 5.17%<sup>1</sup>, the young population of the country is reported increasingly making more money from year to year. Out of this group, women especially have experienced an increase in the employed rate from 46% of the working age of women population to 52% in a decade.<sup>2</sup> In spite of the economic slowdown, which has been characterized by increasing product prices, Indonesian women continue to purchase plenty of beauty products. Corresponding to this trend, cosmetic products have become a primary requirement for Indonesian females who in general are the main target of the world cosmetics industry. However, along with current development, the national cosmetics industry is also beginning to innovate on targeting men and children.

According to report by the Euromonitor International, Markets of the Future: ASEAN in 2020, Indonesia is also named as the Asia's quickest-growing beauty market for beauty in terms of compound annual growth rate. Total domestic sales of beauty products in the country is IDR 11 trillion or USD 818 million in 2015 based on data from the Ministry of Industry.



Graph 1: Indonesia Cosmetic Industry Market Growth

Source: Beauty Mass Survey 2018

Meanwhile, as reported in Eurocham position paper 2018, Indonesia cosmetic industry has been increasing in terms of value from around IDR 15 Trillion in 2008 to IDR 355.4 Trillion in 2017. As shown in figure 1, the major contribution comes from hair products (35.8%) followed

<sup>1</sup> Indonesian Agency of Statistics (BPS) figure for the third quarter of 2018.

<sup>2</sup> Sociolla is Beautifying Indonesia's Online Cosmetics Sector. Ecommerce IQ. 10 Apr 2017. Available at: <https://ecommerceiq.asia/indonesia-beauty-sociolla/>

by skin products (31.7%), makeup (10.5%), fragrance (7.2%) and hygiene (14.8%).

The development rate of the cosmetics industry across Indonesia has been showing positive sign as well. During 2016-17, Cosmetic industry was growing 20%, 3-4 times bigger than the national economic growth. This growth was driven by increasing domestic and export market demand.<sup>3</sup> The export value in that year alone was USD 517 million represented an increase of 9% compare to a year before with the main destinations being ASEAN, Africa and Middle-Eastern countries. In 2018 meanwhile, Indonesian cosmetics and toiletries exports reached 1.67 billion USD and are expected to increase to 1.81 billion USD in 2019.<sup>4</sup>

Back to year 2017, this year also recorded a significant growth of 153 industries in Local Cosmetic industries hence currently the total industries are more than 760, 95 of which are Small and Medium Enterprises.<sup>5</sup> Furthermore, the government has also put focus on this industry as evidenced in the President Direction (Indonesian: *Perpres*) No. 14 Year 2015 about National development core planning year 2015-2035 in which cosmetic and traditional medicine industries are becoming one of the diversified national economic backbones.

Despite various promotional and marketing efforts by domestic brands in years, global brands, be it locally manufactured or imported, still dominate cosmetic sales in Indonesia. The superiority of such brands is difficult to break as cosmetic products typically have specific target customers and they tend to be loyal to a particular brand. They cannot switch or at least easily to other products even if the competitors provide equal or better quality.

The nation has 12-15% out of the entire population in the middle-high income range. These consumers, who predominantly live in the big cities, can afford to buy high-end imported products. For this specific group population, good quality, brand image and being top-of-trends are among parameters important before buying such products. Statistic wise, the country has seen a rapid growth of shopping malls over the last 10 years. In the capital Jakarta alone, more than 100 shopping centres have been registered. More than 10% of them are intended for high-end or luxury imported products. This presents vast opportunities for European brands which are regarded as expensive but comes with top notch quality and certain status hence highly desirable.

Euromonitor International also predicts that Indonesia will become among the fastest growing cosmetics market in Asia. Indonesia will make it to the top 10 markets for global beauty and skin care products by 2019, worth over USD 130 billion globally.<sup>6</sup>

Halal regulations in particular have been providing new opportunities for the national cosmetics industry. Not only giving the local brand a competitive edge over global brands in the domestic market, it also allows local based halal-certified cosmetic manufacturers establish their presence in overseas niche market too. For instance, the French cosmetics giant L'Oréal in Indonesia already has a halal-certified factory, which supplies the domestic

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<sup>3</sup> Masyarakat Sadar Bersolek, Industri Kosmetik Naik 20 Persen. CNN Indonesia. 20 Mar 2018. Available at: <https://www.cnnindonesia.com/ekonomi/20180320094246-92-284360/masyarakat-sadar-bersolek-industri-kosmetik-naik-20-persen>

<sup>4</sup> Indonesia's Cosmetics Industry: The Rise of Halal Cosmetics. Global Business Guide Indonesia. 8 Jan 2019. Available at: [http://www.gbgindonesia.com/en/manufacturing/article/2018/indonesia\\_s\\_cosmetics\\_industry\\_the\\_rise\\_of\\_halal\\_cosmetics\\_11842.php](http://www.gbgindonesia.com/en/manufacturing/article/2018/indonesia_s_cosmetics_industry_the_rise_of_halal_cosmetics_11842.php)

<sup>5</sup> Ibid

<sup>6</sup> Ibid

market and the Southeast Asia region. Most of the products are sold under the Garnier brand, from facial cleansers to halal-approved skin lightening creams.

## I. OVERVIEW OF THE DOMESTIC MARKET

### 1.1. Size and Growth in the Domestic Industry

Given consistent GDP growth rate at above 5% in the last two years, analysts predict that Indonesia will rise up to the top five Asian markets for cosmetics in the next 10 to 15 years.<sup>7</sup> This presents business opportunities not only for the international cosmetics brands but also personal-care products from any origins including Europe.

A recent study published in December 2018 shows that the revenue in Indonesian Cosmetics segment amounts to USD 497.7 million in 2019. The market is expected to grow annually by 2.6% (CAGR 2019-2023). Revenue growth will continue to be positive although it is predicted to slow down as the market saturates. In global comparison, most revenue is generated in the United States (USD 17,379 million in 2019). In relation to total Indonesia population figures, per person revenues of USD 1.85 are generated in 2019.



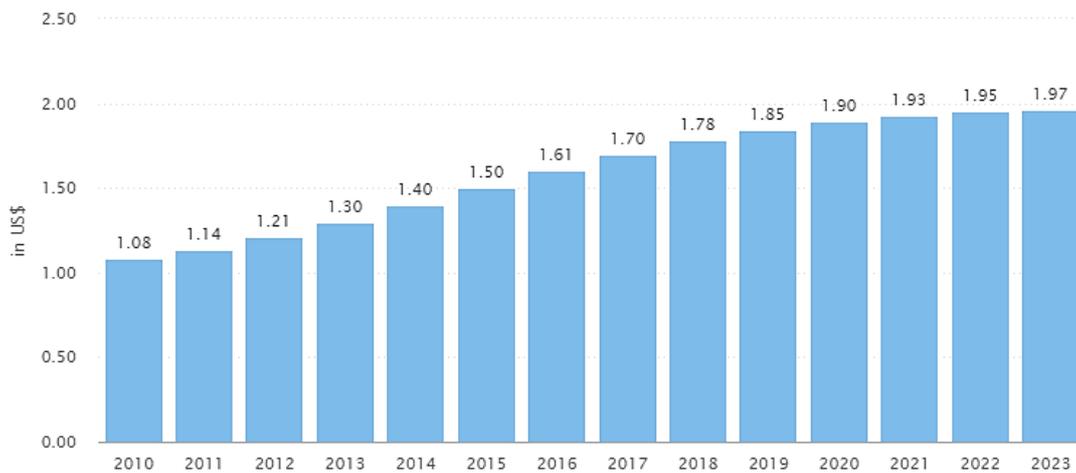
Graph 2: Revenue in Cosmetics segment

<sup>7</sup> INDONESIA: Rising Demand for Beauty and Personal Care Products. Switzerland Global Enterprise. 17 Apr 2018. Available at: <https://www.s-ge.com/en/article/news/2018-cosmetics-indonesia>



**Graph 3: Revenue Growth in Cosmetics segment**

**Source: Statista 2018**

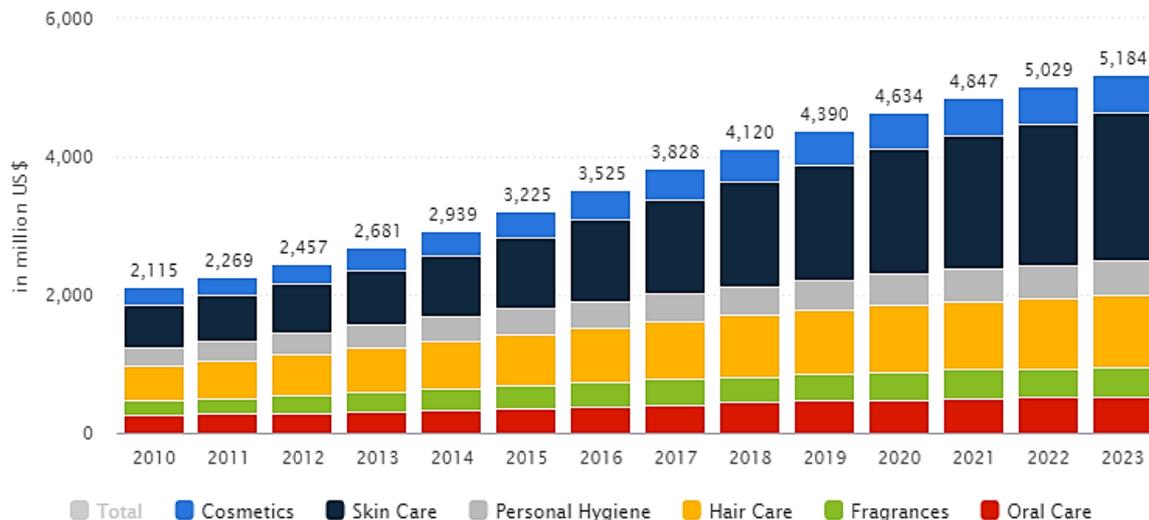


**Graph 4: Average Revenue per Capita in Cosmetics Market**

**Source: Statista 2018**

With addition to Personal Care market such as skin care, personal hygiene, hair care, fragrances and oral care, Indonesia's revenue amounts to USD 4,390 million in 2019.<sup>8</sup> Along with the revenue of cosmetics in 2019 stated earlier, the Skin Care is the biggest contributor with USD 1,673.2 million, while Hair Care (USD 920.6 million), Oral Care (USD 464.6 million), Personal Hygiene (USD 440.2 million) and Fragrances (USD 394.1 million) are also backing the numbers.

<sup>8</sup> Cosmetics & Personal Care Indonesia. Statista - The Statistics Portal. 8 Jan 2019. Available at: <https://www.statista.com/outlook/70000000/120/cosmetics-personal-care/indonesia>



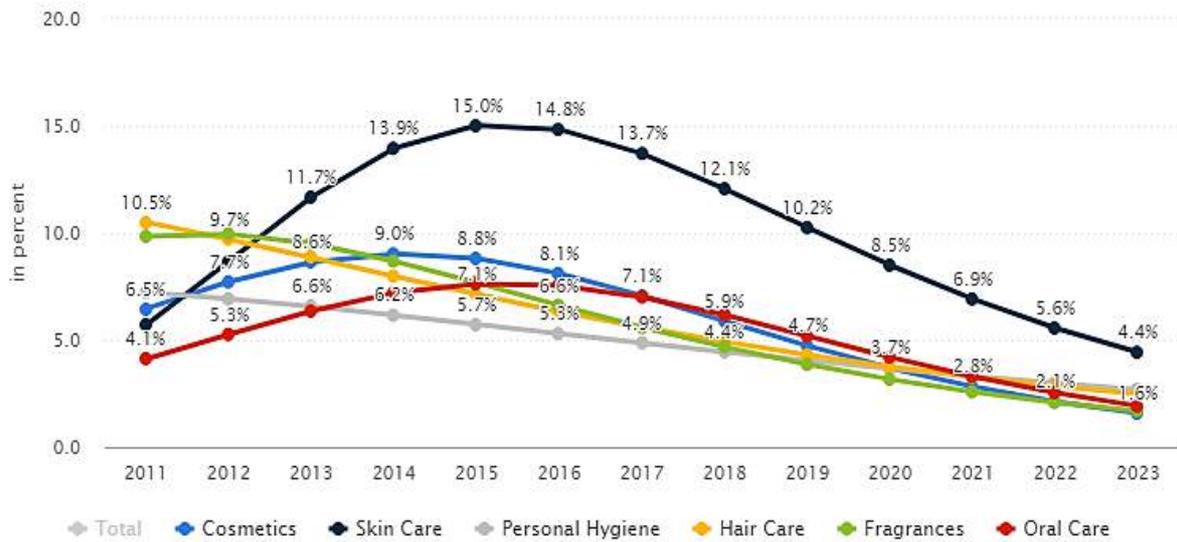
**Graph 5: Revenue of Cosmetics & Personal Care**

**Source: Statista 2018**

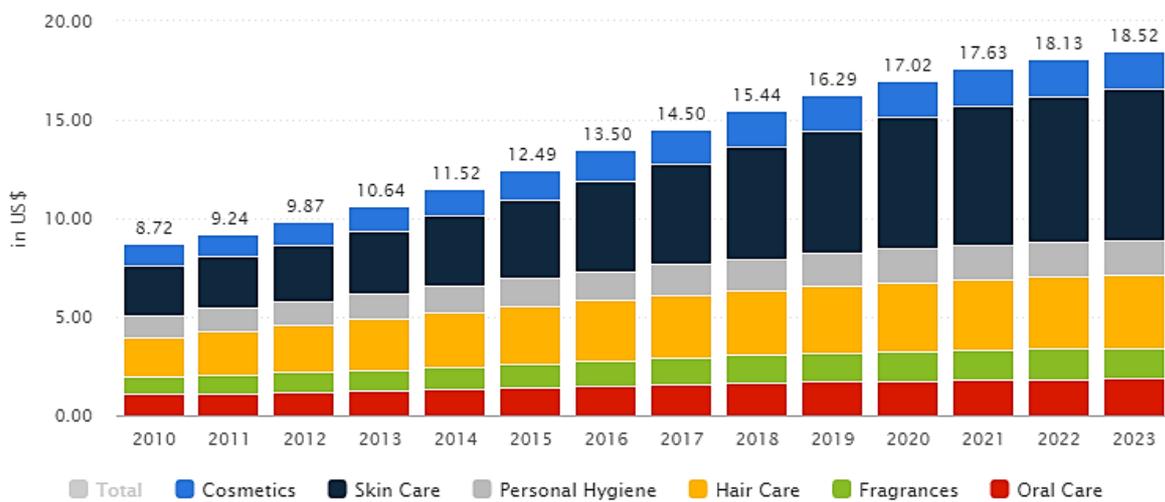
The report from the same source said the market is expected to grow annually by 4.2% (CAGR 2019-2023). In 2019 the market's largest segment is the Skin Care with a market volume of USD 1,673 million. As comparison in global situation, the world biggest revenue is generated in the United States which amounts to USD 79,814 million in 2019. In relation to total population figures, per person revenues of USD 16.29 are generated in 2019.

In terms of revenue growth, the combined Cosmetics & Personal Care market in Indonesia has always been positive and expected to continue so until 2023. Although the number had been escalating from 2011 (7.3% growth) to 2015 (9.7% growth), the report predicts this positive trend will slow down at least for the next 4 years.<sup>9</sup> The revenue growth for both Cosmetics and Personal Care markets from 2019 to 2023 are 6.6%, 5.5%, 4.6%, 3.8%, 3.1% respectively. As for the revenue growth for each market component, it is as shown in graph below.

<sup>9</sup> Ibid



Graph 6: Revenue Growth in Cosmetics & Personal Care Segment



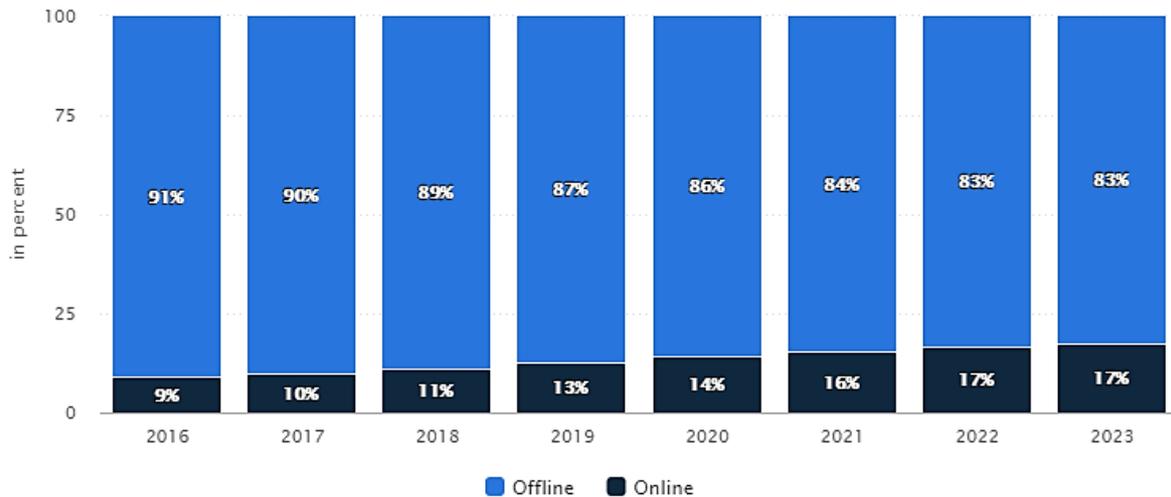
Graph 7: Average Revenue per Capita in Cosmetics & Personal Care Segment

Source: Statista 2018

The average revenue per person in the market for Cosmetics & Personal Care amounts to USD 16.29 in 2019. Skin Care USD 6.21, Personal Hygiene USD 1.63, Hair Care USD 3.42, Fragrances USD 1.46, Oral Care USD 1.72.

It is worthy to note that cosmetics online sales in the country are rather minors compare to conventional offline distribution. Nevertheless, the number is estimated to keep growing that 17% of overall revenue of the Cosmetics & Personal Care market will be generated in internet by 2023.<sup>10</sup>

<sup>10</sup> Ibid



**Graph 8: Sales Channels in Percentage of Cosmetics & Personal Care Products**

**Source: Statista 2018**

Indonesian Ministry of Industry, meanwhile, specified that the domestic cosmetics industry growth was driven by increasing both domestic and export market demand. Specifically for exports, it grew by an average of 3.56% in the last five years. The progressive trend of people, especially due to the increasing population young women or the millennials group, within the country who make beauty products as their main needs is the bigger main contributor to the growth of the cosmetics industry.<sup>11</sup> The Ministry of Industry has also set the cosmetics industry as a main sector to be accelerated in the 2015-2035 National Industrial Development Master Plan (Indonesian: *RIPIN*).

Regarding the competition there is indeed a growing number of business players. According to the Indonesia's National Agency of Drug and Food Control (BPOM RI), there were 33,823 registered cosmetic products sold in the country as per September 2017. This number represents 11.57% increment compared to the same period a year before.<sup>12</sup>

Despite the optimistic growth, some cosmetic manufacturers based in Indonesia endure less favourable performance. With exception of Wardah, big national cosmetic manufacturers are impacted by the international economic slowdown as well as reduced public spending. One example is Martina Berto (Sariayu Martha Tilaar brand) whose 2017 revenue only slightly grew up to 3% compared to that of the previous year thanks to IDR 459.94 billion of total cosmetics sales of which accounts for 91% of the company's income.<sup>13</sup>

Another one is Kino Indonesia which even experienced declining sales in 2017 of IDR 2.34 trillion than that in 2016 of IDR 2.70 trillion. For this company, the body care products accounted for 45% or IDR 1.05 trillion of total sales. Likewise, Mustika Ratu's sales also

<sup>11</sup> Kian Kinclong, Industri Kosmetik Nasional Tumbuh 20 Persen. Kementerian Perindustrian. 19 Mar 2018. Available at: <http://www.kemenperin.go.id/artikel/18954/Kian-Kinclong,-Industri-Kosmetik-Nasional-Tumbuh-20-Persen>

<sup>12</sup> Ibid

<sup>13</sup> Indonesia's Cosmetics Industry: The Rise of Halal Cosmetics. Global Business Guide Indonesia. 8 Jan 2019. Available at: [http://www.gbgindonesia.com/en/manufacturing/article/2018/indonesia\\_s\\_cosmetics\\_industry\\_the\\_rise\\_of\\_halal\\_cosmetics\\_11842.php](http://www.gbgindonesia.com/en/manufacturing/article/2018/indonesia_s_cosmetics_industry_the_rise_of_halal_cosmetics_11842.php)

declined by 8.8% in 2017 from IDR 259.96 billion in the previous year to IDR 236.17 billion.<sup>14</sup>

On the other hand, some brands are in line with the national growth. Unilever with its home and personal care products documented slim sales growth of 2.1% in 2017 from IDR 20.6 trillion in 2016 to IDR 21.1 trillion. Although minor, its net profit in 2017 is indeed increased by 13.64% to IDR 4.75 trillion. Similarly, Mandom with its Gatsby and Pixy brands achieved a revenue increase of 7.53% from IDR 2.52 trillion in 2016 to IDR 2.71 trillion in 2017. This period also accounts an improved net profit for the company by 10.53% from IDR 162.06 billion to IDR 173.13 billion.<sup>15</sup>

## 1.2. Consumer Profile

Recent research conducted by L'Oréal suggested that 75% of Indonesian women prefer beauty products made with natural ingredients. This number is higher compared to the global percentage which is only 66%.<sup>16</sup> The phrase *"I enjoy taking care of myself"* was echoed by 82% of Indonesian women, a more significant voice than only 67% of the ladies from all over the world combined who agreed with this comment.

Confidence seems a fundamental attitude amongst Indonesian women as 80% of the respondents in the country agreed with the sentiment: *"Physically, I like myself as I am"*, contrasting the result conducted globally of which only resulted 66%.<sup>17</sup>

As described earlier that having huge population and mounting incomes per capita, some analysts predict that Indonesia will rise to the top ten markets Asian cosmetics market within 10 to 15 years. Out of this population, 12%-15% are estimated to be in the middle-high income range. These are people who can afford to buy imported products. These high-end consumers are concentrated primarily in big cities like Surabaya, Bandung, Medan, Makassar, Semarang, Palembang, Batam and the capital Jakarta with its surrounding urban areas like Bekasi, Tangerang and Depok. For them, quality, trends and brand names play an important role in their personal choices.

There is also a tendency in retails that buyers are attracted more to those brands of foreign and foreign-like than locals. Some distributors in the country even notice that products with city name associated with fashion such as L'Oréal Paris, Lancôme Paris and Maybelline New York appeal more to consumers. While older consumer in particular exhibits strong preferences and they tend to become loyal to one brand, it is understood that the majority of Indonesian audience which are the younger generation has low levels of brand-loyalty. The study also said that at least 30% of them are willing to try a new product in next purchase.<sup>18</sup>

This provokes some local industry players consciously work with a variety of marketing strategy with non-Indonesian naming to attract more shoppers. One example is the Indonesian based lipstick brand Rollover Reaction as they try to create an image that the brand is of originated from abroad with the use of English name. Reputation and name recognition also drive their cosmetic purchases with offline shop located in the premium locations. Though,

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<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> L'Oréal confirms Indonesia is its fastest growing mass market. *Cosmetics Design Asia*. 6 Feb 2018. Available at: <https://www.cosmeticsdesign-asia.com/Article/2018/02/06/L-Oreal-confirms-Indonesia-is-its-fastest-growing-mass-market>

<sup>17</sup> Ibid

<sup>18</sup> Sociolla is Beautifying Indonesia's Online Cosmetics Sector. *Ecommerce IQ*. 10 Apr 2017. Available at: <https://ecommerceiq.asia/indonesia-beauty-sociolla/>

young consumers are more and more inclined to shop online, offline shop is essential to allow target consumers use different products. High-end Indonesians are having no problems to pay more for well-known branded products, which convey higher social status. On the other hand, the middle and lower level income groups are sensitive to price and to economic swings.

Consumerism in the country increases particularly during holiday seasons, such as *Lebaran* or *Idul Fitri* (Muslim celebration after the holy month of Ramadhan), Lunar New Year and festive Christmas season. Stores and malls take advantage of these times of the year by throwing various promotions as demand of almost anything including cosmetic products escalates.



Figure 1: Promotion by Metro Department Store during Festive *Lebaran* Season

Source: Metro Department Store 2018

Nowadays Indonesians are more conscious to personal image and fashion than before. Therefore, daily make-up has become a basic need among women especially those who go to work. It is true that women remain the dominant consumers of cosmetic and body care products, but sales of other common cosmetics to the male market segment are steadily increasing. Such products include those for hairstyling (e.g. gel, hair spray, beard grooming), perfume and cologne.<sup>19</sup>

A business study shows that the skin care products market size and sales for both males and female will continue to increase due to the growing awareness of the value of skin-care treatment. An increasing number of men, as well as working women, are more concerned about their skin care, driving the demand for male-oriented products.<sup>20</sup> Meanwhile, the market for both local and imported anti-aging and whitening products still shows growth potential.

<sup>19</sup> Indonesia: Personal Care & Cosmetics Products. Cosmetics, Toiletries and Skincare Market Overviews 2016. The U.S. Department of Commerce.

<sup>20</sup> Ibid

There is also rising consumer demand for Halal-compliant consumer products in Indonesia and the ASEAN region in general. People are now more concerned about things they consume especially those who follow Islamic way of living. Cosmetics that are Halal, which means permissible according to law of Islam, in Indonesia are a fast-growing industry and aligned with global situation which expected to reach USD 6.4 trillion by 2018.<sup>21</sup> To support this, the Indonesian government recently implemented a mandatory Halal certification for cosmetic products including control to its raw materials and production factory.



**Figure 2: Advertisement by Wardah Cosmetics that Emphasizes its Halal Product**

**Source: Marketeers 2016**

As the world largest Muslim population, Indonesian government also ensures sufficient Halal labelling and reference source are available to public. Compare to the adoption of halal certificate to foods which has been common for the local Muslim population in the country, it is a relatively newer phenomenon such measure is applied to cosmetics. In short, for a cosmetic product to be halal, it should not contain certain alcohol, should not be tested on animals, and should not contain ingredients from animals. There is also an increasing preference for herbal and organic products, as consumers become more health-conscious and pick for safer, chemical-free treatments.

As in other Asian countries, having flawless and bright skin is seen as a particularly important hallmark of beauty in Indonesia, both in men and women. Promulgated through advertising campaigns, the fair-skin beauty ideal reflects in TV shows and on magazine covers and resonates through social media among the country's young and internet-savvy population.

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<sup>21</sup> Halal Cosmetics Manufacturing. Global Business Guide Indonesia. 28 Jan 2019. Available at: [http://www.qbgindonesia.com/directory/manufacturing/2017/cedefindo-cosmetics\\_manufacturer\\_indonesia/452165942/en/halal\\_cosmetics\\_manufacturing/show\\_product.php](http://www.qbgindonesia.com/directory/manufacturing/2017/cedefindo-cosmetics_manufacturer_indonesia/452165942/en/halal_cosmetics_manufacturing/show_product.php)

Rural areas lag far behind urban centres in terms of per-capita consumption of cosmetics, but they are catching up quickly as retail networks expand beyond major cities and as new consumers enter the market. Improving infrastructure and logistics are also helping companies penetrate rural areas.

Indonesian consumers are attracted to branded products. They also tend to be image conscious. Brand loyalty is most likely gained by quality with good packaging, distribution, promotion, and pricing.

The median age in Indonesia is 30.5.2 Indonesia women tend to follow fashion and cosmetics trends in other Asian countries, particularly Singapore, Hong Kong and increasingly Korea. According to industry sources, products that are popular in Singapore would have good prospects in Indonesia.

In Indonesia, similar to many other Asian countries, skin and hair are the two aesthetic qualities most highly valued. Accordingly, skin and hair care are the two largest categories of product sales, with over 20% of the market. Products which cater to Indonesia's local climate and cultural traditions, addressing strong sun, high humidity and urban pollution, as well as the requirement of regular face washing ahead of frequent daily prayers fare well. For many consumers products need to have stronger fragrances, higher SPF protection and be waterproof. In skin care, there is demand for products that even skin tone and whitening agents.

Since the cosmetics market in Indonesia is highly competitive, the creation of a strong brand through promotion is recommended for substantial entry into the market. Successful products tend to contain unique formulas or ingredients not available in Indonesia. In addition, a strong marketing campaign and advertising play a major role in promoting awareness of products and brands and in expanding market reach. Business sources indicate that cosmetics companies use print media as their primary advertising channels to promote imported cosmetics.

### **1.3. Category**

#### **1.3.1. Hair Care**

Like anyone anywhere in the world, for Indonesians regardless male or female hair is crown. This makes hair care product in the country is a favourite for routine consumption. Some of the products which are widely used by Indonesians are including hair colours, hair mist, hair sprays, and gels/pomade (for males). Again, this trend mostly applies to the group of urban lives in the big cities of whom the majorities are already aware of the importance of their fashion look.

Particularly towards females, some of the hair care producers are even targeting a very specific crowd such as towards women who wear hijab (hair cover or veil). They are indeed lucrative markets as big population in the country are indeed permanent or occasional hijabis (a call for the hijab users). For this market segment, the campaign sells not only the halal certification the product has but also the specific solution it offers for problems normally experienced by these exact consumers.



Figure 3: Hijab Hair Care Series by Sariayu Martha Tilaar

Source: Moeslema 2018

One example is what Sariayu Martha Tilaar brand has in its Hijab Hair Care Series which includes not only shampoo and conditioner but also hair tonic and hair mist. According to the brand, some advantages of this series of products are the main formula that uses diverse natural ingredients easily found in the country. Natural ingredients contained therein include bird's eye chili (Indonesian: *Cabe Rawit*), Mangkokan and Mint Leaves, Eclipta Prostrata (Indonesian: *Urang Aring*), and Aloe Vera. For the hair mist, the brand claims this can make hair feel fresher and not easily droop although it's covered in hijab all day long.<sup>22</sup>

### 1.3.2. Skin Care

With huge population and productive age majority, Indonesia is indeed one of the largest skin care markets in the world. Based on data reported by Euromonitor International titled *The Future of Skin Care*, Indonesia is now already number two as the world largest contributor to the growth of skin care in the world after overtaking the United States which is now placed number three on the very list.<sup>23</sup> According to the same source, the skin care market is expected to experience even higher demand in Indonesia in the future as the population grows. Likewise, some national business players would agree with this prediction.

For example the owner of famous Nivea brand, PT Beiersdorf Indonesia, expressed its optimism that in the future their business will continue to grow.<sup>24</sup> The report explained that overall domestic consumer demand for the skin care industry reached around 6%. Although this condition is still far away from the demand of the national food industry, but the market penetration is as high as 70%, considering this product used by almost all ages.

According to Beiersdorf Indonesia, steady products innovation from the skin care business players provokes domestic consumer growth from year to year. As the cosmetics industry is

<sup>22</sup> Sariayu Hijab Hair Mist: Bikin Rambut Segar & Tidak Lepek. Moeslema. 29 Jan 2019. Available at: <https://moeslema.com/1898>

<sup>23</sup> Indonesia Jadi Pasar Terbesar Produk Skin Care Dunia. Marketeers. 28 Jan 2019. Available at: <http://marketeers.com/indonesia-jadi-pasar-terbesar-produk-skin-care-dunia/>

<sup>24</sup> Indonesia Menduduki Pasar Skin Care Terbesar di Dunia. Waspada. 26 Feb 2019. Available at: <http://waspada.co.id/ragam/indonesia-menduduki-pasar-skin-care-terbesar-di-dunia/>

developing well enough, skin care brands also have the potential to develop by adapting to the market demand.<sup>25</sup> Euromonitor International also predicts that global sales of beauty products will reach USD 130 billion by 2019 partly thanks to high demand of skin care industry in fast developing nations like Indonesia, Turkey, India and Saudi Arabia.

From recent surveys conducted in August 2018 by ZAP Clinic and MarkPlus Inc. towards 17,889 Indonesian women, Indonesian beauty market is considered as a fairly competitive field. Because there is a slight difference in percentage number between the brand users and brand players.<sup>26</sup> The study also reports the six most popular skin care brand of Indonesian women are dominated by foreign brands namely SK II, Laneige, The Body Shop, Innisfree, Nature Republic and Wardah.

To compete, some brands even strategize differently. An Indonesian based brand Natasha Skin Care for example. Its products are only available at its own official clinics which are under the auspices of the Natasha Skin Care network, in other words not sold freely in retails. In the clinic, there is a facility for consulting with a doctor that is free of charge. This is then followed up with suggestion which products suitable for the patient's skin problems.



Figure 4: A Typical Natasha Skin Care Clinic

Source: Mentary kartika 2018

On the other note, a research conducted by a Malaysian based skin care brand, Safi, shows that there are several skin problems mostly experienced by Indonesians. Among them are black spots (Indonesian: *flek hitam*) and the uneven skin colour.<sup>27</sup> This is caused by a rather careless habit of not maintaining skin health but on top of that it is due to external factors such as pollution and continuous sun exposure experienced by many people live in tropical countries. Other common problems among Indonesians may include acne, oily skin and dull skin.

### 1.3.3. Makeup

Many Indonesian women are willing to spend a lot of money on buying makeup or for beauty care as they believe it can support their appearance. According to a recent study done by

<sup>25</sup> Ibid

<sup>26</sup> Ini Enam Merek Skincare Terfavorit Perempuan Indonesia. Marketeers. 30 Jan 2019. Available at: <http://marketeers.com/ini-enam-merek-skincare-favorit-perempuan-indonesia/>

<sup>27</sup> Masalah Kulit yang Paling Sering Dialami Orang Indonesia. SindoNews. 31 Jan 2019. Available at: <https://lifestyle.sindonews.com/read/1340020/186/ini-masalah-kulit-yang-paling-sering-dialami-orang-indonesia-1537494577>

Warta Atma Jogja, the average Indonesian woman spends IDR 50,000-200,000 or EUR 3.00-12.50 monthly to buy makeup.<sup>28</sup> Some people even spend quite a lot on makeup with a nominal value of more than IDR 500,000 or EUR 31.25 per month.<sup>29</sup>

Based on this very research, the most majority of the makeup users are aged 18-20 years. In the second position are those with the age range of 21-23 years while the minority of the respondents are aged 15-17 years and over 26 years old. This indicates that in this age range, makeup users usually begin to be aware of their appearance, especially on the face, for example, starting to take care regularly and use makeup when going out. However, this does not necessarily apply to all, because there are some who consider beauty to be built from within (inner beauty).

The distribution of types and brands of makeup in Indonesia is very large ranging from high-end, middle to low-end, imported and local Indonesian brands. Still referred to the same research conducted by Warta Atma Jogja, the number one most widely used local brand is Wardah makeup. Wardah is well-known as an affordable cosmetic brand, but the quality is proven by the results of makeup that is pigmented, durable and waterproof on some types of cosmetics. Wardah's brands have been positively reviewed by Indonesian beauty vloggers such as Abel Cantika, Devienna Makeup and Kiara Leswara<sup>30</sup>. Not only that, Wardah consistently followed the development of existing makeup by releasing new types of makeup such as lip cream ranging from bold to nude.

The second position for the most widely-used local brand is Make Over, which is in-fact share the same parent companies with Wardah, PT Paragon. The characteristic of the Make Over product is that it has more intense makeup colour and the price is slightly more expensive when compared to Wardah but still affordable by students and workers alike.

The third is Emina, a new makeup brand that is also managed under PT Paragon. Compared to Wardah and Make Over, Emina has a rather special target market of beginner young women who just want to learn makeup. The brand is regarded by their target market as of good product quality considering the affordable price it sells. This product is claimed suitable for teens with more natural and fresh types of makeup.



Figure 5: Make Over and Emina Products

Source: Multiple Sources 2018

<sup>28</sup> Ekonomi, Kosmetik, dan Perempuan. NewsLab UAJY Situs warta Atma Jogja. 4 Feb 2019. Available at: <http://newslab.uajy.ac.id/2018/04/09/ekonomi-kosmetik-dan-perempuan/>

<sup>29</sup> Ibid

<sup>30</sup> Ibid

Next, Purbasari is the fourth local product that is widely used in the country. Some time ago, Purbasari matte lipstick took Indonesian makeup users and lovers by storm as it sells a very affordable product with top notch quality. Purbasari has a matte lipstick colour variation that varies from bold to nude with a price range of only IDR 30,000-40,000 or EUR 1.80- 2.50.

Based in this survey, other local products also used were Viva (13 respondents), Pixy (12 respondents), Sariayu (10 respondents), Mineral Botanica (6 respondents), Inez Cosmetics (5 respondents), BLP (3 respondents), Red A (2 respondents), Rollover Reaction, LaTulip, Mizzu and Marcks with 1 respondent respectively. Every local makeup brand in the market has different characteristics and targets of consumers so that they can fulfill their makeup needs for different characters, the assessment by user of each product is also subjective.

There are several main reasons why people choose local products over imported ones namely because it is affordable, easier to obtain, based on recommendations from friends or followed beauty vlogger, and the assumption that local products have been adapted to the climate and skin of Indonesian people in general.<sup>31</sup> Based on the results of the review, the quality of local products is considered also as good as imported products.

As for the imported makeup products, they are increasingly complements the needs of users in improving their looks. For some, it doesn't matter when the price of imported products is rather expensive as long as the product suits them well. Maybelline is the imported brand which is most widely used by the survey respondents. Many favour its quality product, especially the mascara.

L'Oréal is the second choice of imported makeup products followed by NYX and Revlon. NYX products are known for their lip cream which is long lasting and transfer proof. In Indonesia, there is a trend of natural and fresh makeup styles like the faces of Korean Drama actresses. Korean products also began to spread even in smaller towns in Indonesia, one of which was lip tint and BB Cushion products. Korean-style makeup style has a characteristic with a glowing face and not much colour playing, especially in the eyes and cheeks. Laneige, Etude, and Innisfree are the most widely used Korean products for Indonesians.

There are many imported brands that are equally good, such as Benefit, Anastasia Beverly Hills, Kylie Cosmetics, Make Up Forever, Wet n Wild, City Colour, The Balm, Oriflame and Colour Pop. However, as the price of these brands is rather expensive, they can only be purchased by the middle-upper economy class. Good thing is that there is a growing population of this group of people in Indonesia which eventually can sustain the sales growth of these brands. Makeup resistance, better quality and packaging are some reasons according to Indonesians on choosing imported products over locals.

#### **1.3.4. Fragrance**

In fragrance sector, domestic brands compete well with imported international brands. The supply market is highly fragmented, so that consumers have plenty of choice. Perfume and cologne are indeed personal commodities of which the market composition in Indonesia alone is very diverse. For this reason, producers must understand different fragrances that are of interest to the local consumers. In general consumers will always be loyal to the fragrances that they think are best suited to their personalities. According to PT Fable Bumi Indonesia,

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<sup>31</sup> Ibid

the owner of Fable perfume, perfume is truly having a huge market share in Indonesia.<sup>32</sup> Perfume or Body Mist Cologne is a commodity with the potential value of business development as the country is developing with an increasingly improving level of economic growth.

According to Statista, Indonesia revenue in the Fragrances segment amounts to USD 394 million in 2019. The market is expected to grow annually by 2.4% (CAGR 2019-2023)<sup>33</sup>. In global comparison, most revenue is generated in the United States (USD 8,159 m in 2019). While in relation to total population figures, per person revenues of USD 1.46 are generated in 2019.

Meanwhile, a report by Global Data said that Female Fragrances category is the largest category in value and volume terms and is forecast to register the fastest growth during 2014-2019. The Mass Fragrances are more popular than Premium Fragrances. The Indonesian Fragrance market is led by international players such as L'Oréal, Oriflame, Avon and Calvin Klein. Department Stores is the leading distribution channel for Fragrance products in 2014 accounting for 40.6% market share followed by Health & Beauty Stores.<sup>34</sup>

Sales of female fragrances in 2017 recorded significant growth. Most sales are dominated by female fragrances as many Indonesian women consider owning a fragrance as one of the key components for their daily personal care. There is also a considerable potential for male fragrances though. Male fragrances recorded positive growth in 2017. Popular mass men's fragrances in Indonesia include Master Cologne (Kino), Casablanca Cologne (Priskila) and Gatsby (Mandom).

Specifically for Casablanca Cologne, it is a pioneering product made for the major Indonesian population of mid-range segment by PT Priskila Prima Makmur. To attract various market segments, the company produces eye-catching product designs. Priskila itself specialises in personal care products, cosmetics and toiletries for the premium mass market. It is a domestic market leader able to compete with international brands. The company's state-of-the-art facility in Sentul, near Jakarta, which has a manufacturing capacity of up to 20 million finished products per month, enables the company to meet world-class production standards at a competitive price range.

Active in Asia, Priskila exports private label products to the Philippines and sells its own brands to local importers in Cambodia and Malaysia for retail and wholesale distribution. The company is set to launch 40 fresh perfume scents, 30 of which will be available for export by the year's end. Priskila also eyes partnerships with local distributors and seeks to establish a customer base in Thailand, Vietnam, Laos and Myanmar.

According to Euromonitor International, there is a promising outlook ahead for fragrances in Indonesia. Mass and premium fragrances in 2017 continued to show a positive outlook, due to the contribution of internet retailing, wide distribution networks and consumers' aspirational

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<sup>32</sup> Pangsa Pasar Parfum Masih Potensial. Pikiran Rakyat. 4 Feb 2019. Available at: <https://www.pikiran-rakyat.com/ekonomi/2015/05/25/pangsa-pasar-parfum-masih-potensial>

<sup>33</sup> Fragrances Indonesia. Statista. 4 Feb 2019. Available at: <https://www.statista.com/outlook/70050000/120/fragrances/indonesia>

<sup>34</sup> Consumer and Market Insights: Fragrances Market in Indonesia. Global Data. 4 Feb 2019. Available at: <https://www.globaldata.com/store/report/cs2340mf--consumer-and-market-insights-fragrances-market-in-indonesia/>

lifestyles. Internet retailing grew rapidly in Indonesia over the review period.<sup>35</sup>

Although the landscape is competitive, some brands could prevail among others. PT Kinocare Era Kosmetindo for example. The company's led in Indonesian fragrances business continues in 2017 with its brand Eskulin. Its performance is linked to Eskulin's affordable price, wide distribution network and that it offers several types of fragrances.<sup>36</sup>

As internet retailing continues to emerge, competition for distribution of fragrances will also intensify. The leading brands are beginning to sell bundled products, which are offered at relatively large discounts, compared with purchasing products separately.

### 1.3.5. Hygiene

With a population of nearly a quarter-of-a-billion, an age average of less than 28 years, and growing hygiene awareness, Indonesian consumers are a lucrative market for personal hygiene product manufacturers. The personal hygiene market consists of the retail sale of anti-perspirants and deodorants, bath and shower products, and soap. The anti-perspirants segment consists of all antiperspirants and deodorants in spray, stick, roll-on, cream, gel and solid formats. The bath and shower segment consists of bubble-baths and bath time washing gels and lotions. The segment also includes non-liquid products added to baths such as bath bombs, beads and salts. The soap segment consists of both bar soap and liquid soaps.

Among all hygiene category of cosmetics and personal care products, soap is one of the oldest and most important one in the country. Although traditional soaps made of potash and animal fat which cannot make any claims other than cleaning are not considered cosmetics, most soaps today are indeed cosmetics. This is because soap nowadays is much more sophisticated as they can also serve as a deodorant bar or moisturizer.

The Indonesian personal hygiene market had total revenues of USD 761.1m in 2017, representing a compound annual growth rate (CAGR) of 12.6% between 2013 and 2017. Market consumption volume increased with a CAGR of 7.9% between 2013 and 2017, to reach a total of 1,215.2 million units in 2017.<sup>37</sup>

Just recently according to the statistics portal, Statista, the Indonesian revenue in the Personal Hygiene segment amounts to USD 440 million in 2019.<sup>38</sup> The market is expected to grow annually by 3.2% (CAGR 2019-2023). In global comparison, most revenue is generated in the United States (USD 14,786 million in 2019). While, in relation to total population figures, per person revenues of USD1.63 are generated in 2019.<sup>39</sup> Meanwhile, some of the most famous hygiene product brands in Indonesia are including Lifebuoy, Giv, Dettol, Biore, Nuvo, Citra and Lux.

As for specific deodorant products, the roll-ons which are the first type of deodorant sold in country, continued to lead sales in 2017. Indonesian consumers prefer products that are durable, affordable and easy to use. Deodorant sprays holds great potential for future growth

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<sup>35</sup> Fragrances in Indonesia. Euromonitor International. 2 Feb 2019. Available at: <https://www.euromonitor.com/fragrances-in-indonesia/report>

<sup>36</sup> Ibid

<sup>37</sup> Personal Hygiene in Indonesia. Ken Research. 3 Feb 2019. Available at: <https://www.kenresearch.com/consumer-products-and-retail/cosmetics-and-personal-care/personal-hygiene-indonesia/179274-95.html>

<sup>38</sup> Personal Hygiene. Statista. 5 Feb 2019. Available at: <https://www.statista.com/outlook/70030000/120/personal-hygiene/indonesia>

<sup>39</sup> Ibid

and are perceived as one of the alternative formats for consumers looking for practicality where they do not need to swipe directly onto the skin. The sprays' particles are also small, so there are no concerns regarding the staining of clothes, especially young adults who often work with light coloured shirts.

Deodorants have become a daily necessity for consumers in Indonesia and product availability is huge. Unilever Indonesia continued to lead sales in 2017 with Rexona brand, which has a longstanding presence. Most local consumers are very familiar with Rexona, and as such its brand image is extremely strong. Similar to it, other beauty and personal care products such as Axe and Nivea continued to dominate the market.<sup>40</sup> This is linked to consumers' trust in these brands regarding their quality.

As internet retailing emerges, competition for distributing deodorants will intensify. The leading brands will begin to sell products in bundles, which offer a relatively large discount. Consumers can purchase bundle products by Dove brand deodorants and Dove brand shampoo with a price gap if purchased individually at around IDR 25,000 on mainstream e-commerce sites such as Shopee, Tokopedia and BukaLapak.

#### **1.4. Distribution Channels and Marketing**

In mass distribution, consumers' purchasing channels are no longer the traditional trade such as privately run shops but rather the modern trade such as chain stores and other organized retailers. Thanks to it, an ever fierce rivalry between global and local firms surface as they compete to maintain sales of standard products and run effective sales promotion.

In Indonesia, personal care and cosmetics are sold through various mediums including specialty stores, drug stores, department stores, supermarkets, direct marketing (MLM), skin care clinics, and beauty salons. Speciality stores in particular have gained popularity in Indonesia main cities, including the Crabtree & Evelyn, Kiehl and Sephora. According to the US Department of Commerce, direct marketing remains an option in Indonesia, with their companies positioning as healthy life style brands, offering cosmetics, supplements and other related products, with top brands including Amway, Nu Skin, Tahitian Noni, Sunrider, Forever Living, Herbalife, Jeunesse, and Oriflame.

While mass market personal care brands from global giants such as Unilever and P&G are quite popular and widely available at warungs (modest traditional street stores), drugstores, convenience store chains, minimarkets and hypermarkets, a variety of imported masstige and niche cosmetics brands are gaining a stronger foothold as working class women and men are keen to spend more on premium, up-market products.

Recent trend also shows that Indonesian cosmetic products marketed through social media like Instagram and Facebook, are unsettling established major players like Mustika Ratu and Martina Berto to move out from their comfort zones and selling through these digital platforms and stay competitive as new names have begun to disrupt the landscape.

Well established local brands such as Polka, By Lizzie Parra (BLP), or Rollover Reaction have increased their popularity cosmetics enthusiasts through creative campaigns, leveraging social media including Instagram and Facebook. Polka, for instance, relies heavily on the digital world to sell its products. The company believes that online marketing is the best tool

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<sup>40</sup> Deodorants in Indonesia. Euromonitor International. 4 Feb 2019. Available at: <https://www.euromonitor.com/deodorants-in-indonesia/report>

to reach what it calls a “borderless market”. Its lip lacquer or a liquid lip colour that creates a glossy look, hit the Indonesian market not long time ago and has sold like candies among teenagers ever since.

The growth in the e-commerce market in Indonesia is expected to continue its upward trend in the years ahead as the nation is one of the biggest online markets worldwide. There are approximately 93 million online users, and this number is expected to grow at an average rate of 10% through the end of 2020, to reach over 130 million internet users. Based on a survey conducted in 2018, 58% Indonesian women say that regularly use social media sites or social media apps for purchasing products.<sup>41</sup>

## 1.5. Product Trends

The rising image consciousness among Indonesian consumers boosts demand for anti-aging and other products which enhance their appearances. According to Global Data, by 2018 there are at least 48% Indonesians who state that their looks/appearance in general is very important to them, prompting manufacturers to launch products with anti-aging claims.

A related product example is the Make-up Brand: Natur-E Daily Nourishing Face Mist. The product is formulated with peach flower extract that acts as "antiphoto polluaging" ingredient. It also offers freshness to skin and protects outer skin, thus offering an anti-aging solution. Another product example is the Soap Brand: Citra. It is technically an Anti-Acne Facial Foam claimed to include green tea which enhances skin appearance.



Figure 6: Natur-E Face Mist and Citra Facial Foam

Source: Multiple Sources 2018

There is also a trend by producers to make their products appear and felt more premiums for consumers who want to indulge in such experience. Rising disposable incomes across Indonesia is boosting the demand for premium cosmetics which offer an enhanced experience. Some 37% Indonesian consumers state that they occasionally purchase luxury products to treat themselves.

Product example related to this trend is including the Make-up Brand: The Body Shop Shimmer Waves Bronze. The company claims that the 8.5g product which is priced at IDR 339,000 contains marula oil which helps to restore skin's moisture. Another product example

<sup>41</sup> Innovation trends and opportunities in cosmetics – Indonesia & Philippines. Global Data. 4 Feb 2018. Available at: [https://korea.in-cosmetics.com/RXUK/RXUK\\_InCosmeticsKorea/responsive/presentations\\_marketing\\_trends\\_2018/Day\\_3\\_11.30\\_GLOBALDATA\\_in\\_English.pdf?v=636643770247096999](https://korea.in-cosmetics.com/RXUK/RXUK_InCosmeticsKorea/responsive/presentations_marketing_trends_2018/Day_3_11.30_GLOBALDATA_in_English.pdf?v=636643770247096999)

is the Conditioner Brand: Tresemmé Expert Selection. The producer claims it can deep cleanse and protect the hair by its Ginger & Green Tea components. The products expected to offer a salon quality experience, thus positioning the product as premium.



Figure 7: The Body Shop Shimmer Waves Bronze and Tresemmé Expert Selection

Source: Multiple Sources 2018

Last but not least is the personalization trend. With 87% Muslim population in Indonesia there is steady demand for 'halal' certified cosmetics. 50% Indonesian women say they are more likely to purchase products developed for their religion. Moreover, 26% Indonesian consumers state that they seek beauty and grooming products which match their religious beliefs. Catering to this demand, manufacturers are launching products with claims 'halal' or permissible in Islamic belief.

A product serves as good example is the Body lotion Brand: Pureline Hijab Fresh. It is a body lotion launched in Indonesia by PT Unilever Indonesia Tbk and claimed to be a halal certified product. Another example related to the trend is the Facial care Brand: Erto's. The product is a whitening cream claimed to be made with halal ingredients, therefore appealing to consumers seeking products which cater to their religious beliefs.



Figure 8: Erto's and Pureline Hijab Fresh Halal Products

Source: Multiple Sources 2018

Besides halal products, another potential is the trend of people to use natural products. This has become an opportunity for the emergence of natural-based cosmetic products such as spa products from Bali. Several potential ingredients for the beauty industry that are abundant in Indonesia are marine algae and collagen produced from aloe vera. These natural products are also in great demand by foreign tourists.

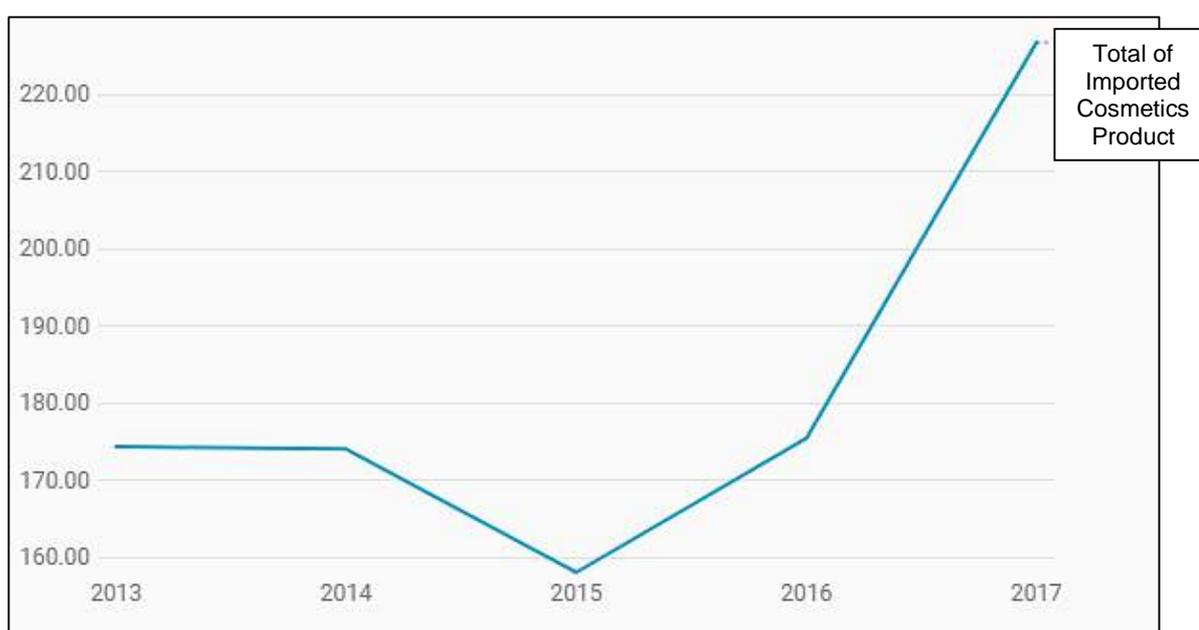
## 1.6. Main Trading Countries

### 1.6.1. Imports

In 2015 the market share of imported cosmetic products in Indonesia is already 60% of the total domestic market worth IDR 15 trillion.<sup>42</sup> According to the Indonesian Cosmetics Association (PPA Kosmetika), the middle to upper class cosmetics market is dominated by products from Europe, Japan, South Korea and the United States. For the middle class, meanwhile, products from Thailand, South Korea and Malaysia are to the fore.<sup>43</sup>

In the following years, based on data from the Central Statistics Agency (BPS), Indonesia imports even more. By 2017 the value of imported cosmetics and toiletries (including beauty, skin-care, manicure/pedicure equipment) jumps to USD 226.74 million (IDR 3.29 trillion using exchange rates of IDR 14,500 = USD 1). Such number is a significant increased by almost 30% from the 2016 record of USD 175.48 million (IDR 2.54 trillion).

#### Total Indonesia's Imports of Cosmetic Products, Beauty Equipment, Skin-Care and Manicure / Pedicure (in Million USD)



Graph 9: Indonesia's Import Value on Cosmetic Products

Source: Raditya Hanung - Central Statistics Agency (BPS) 2018

In accordance with the Harmonized System (HS) of classification, the seven cosmetic products and their derivatives that most frequently enter Indonesia are lip makeup (HS code 3304100), eye makeup (HS code 3304200), manicure / pedicure (HS code 3304300), beauty / makeup powder (HS code 3304910), anti-acne cream (HS code 3304992), face / skin creams and lotions (HS code 3304993), and other lotions and creams (including sun screen) with HS code 3304999.<sup>44</sup>

<sup>42</sup> Produk Impor Kuasai Pasar Kosmetik. Bisnis Indonesia. 15 Jan 2018. Available at: <http://kemenperin.go.id/artikel/11943/Produk-Impor-Kuasai-Pasar-Kosmetik>

<sup>43</sup> Ibid

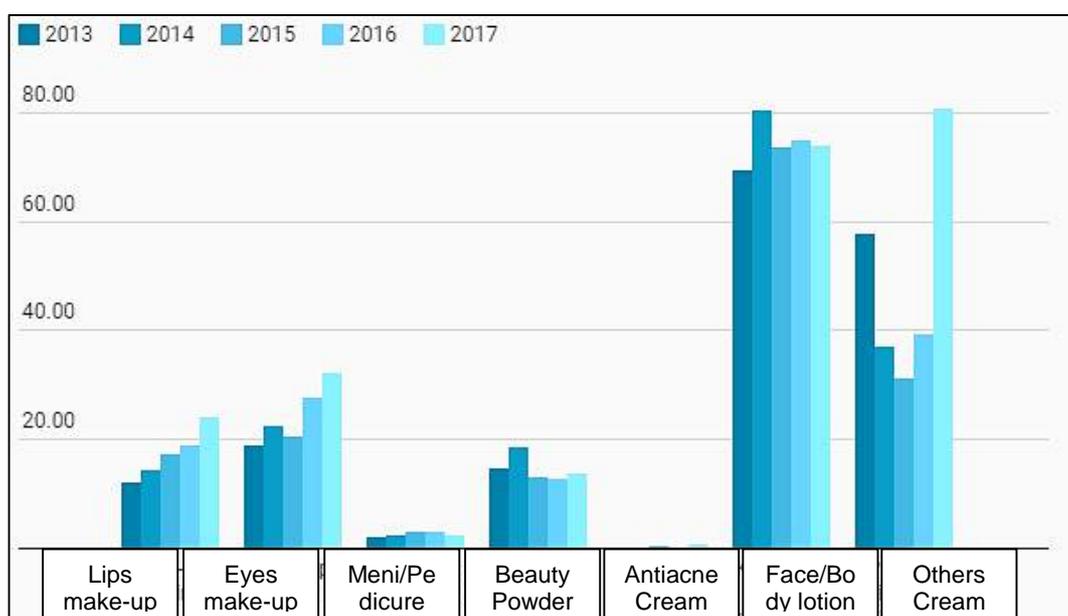
<sup>44</sup> Mau Dihambat, Ini Nilai Impor Kosmetika di RI. CNBC Indonesia. 30 Aug 2018. Available at: <https://www.cnbcindonesia.com/market/20180830161818-17-31039/mau-dihambat-ini-nilai-impor-kosmetika-di-ri>

In 2017, the products most imported into Indonesia were other lotions and creams (including sun screen), which totalled USD 80.54 million (IDR 1.17 trillion), being more than one third (35.5%) of the total import value of cosmetic products during the period.

This more than doubled the figure for the previous year, which only amounted to USD 39.13 million (IDR 567.38 billion) and as a result, has proved to be the "fuel" that sent imports of Indonesian cosmetic products soaring over the past year.

In second place were other face / skin cream and lotion products, with import values reaching USD 73.71 million (IDR 1.07 trillion), or contributing 32.51% of the imports of Indonesian cosmetic products. However, the import value of this product category fell slightly by 1.26% compared to the figures in 2016.<sup>45</sup>

**Import of Cosmetic Products per Category (USD million / barrel)**



**Graph 10: Import of Cosmetic Products per Category 2013-2017**

**Source: Raditya Hanung - Central Statistics Agency (BPS) 2018**

Other categories that showed a significant increase in 2017 were lip make-up and eye make-up products, each at 28.95% and 16.42% on an annual basis (year-on-year).

Imports of cosmetic products in Indonesia also surged in 2018. Based on the latest data released from BPS, total imports of cosmetic products in the period January-May 2018 were recorded at USD 139.12 million (IDR 2.02 trillion), which was 66.87% higher than the USD 83.37 million (IDR 1.21 trillion) recorded for imports in the equivalent period of 2017.

It is only natural that this fast pace of increase in imports should raise eyebrows in government quarters. Yet the domestic and large pharmaceutical industry production recorded solid growth. In 2017, the sector rising by 7.94%, which was markedly greater than that of the large and medium manufacturing industries in Indonesia at just 4.36%.

Putting things into perspective, however, it should be noted that last year's imports of cosmetic products only amounted to 1.6% of total Indonesian imports of consumer goods, and just 0.14% of all imports; hardly figures that would have a major impact on expanding Indonesia's

<sup>45</sup> Ibid

trade deficit.

Thai and Chinese companies are the leading sources of imported products, catering primarily to the mass markets. Chinese products are perceived as being affordable, with high quality natural ingredients that are traditional to Asia. However, there are also a number of illegal and counterfeit imports on the market, coming primarily from China. Thailand was the largest exporter of skincare products and shampoos to Indonesia, accounting for 11% of the total imports in 2015.

Imported products, as opposed to international brands manufactured in Indonesia, primarily occupy the premium market with Japanese, European and American products being the most popular. The most well-known International brands found on the market include Guerlain, L'Occitane, La Prairie, ROC, Clarins, L'Oréal, Yves Saint Laurent, Givenchy, Nivea, Oriflame, Seba Med, Shiseido, Kanebo, SK-II, and Kose.<sup>46</sup>

Japanese companies have also managed to stay competitive in the Indonesian market, with Kao being one of the top players in the face care market and Mandom in makeup and fragrances. On the local front, the cosmetic brands are mostly represented by Mustika Ratu, Martha Tilaar, and Wings.

Products originating from the U.S., meanwhile, accounted for 3% of Indonesia's imported personal care and cosmetic products in 2013.<sup>47</sup> This was a 1% increase from prior years, even while overall imports declined by 13%. However, this official figure likely understates the percentage of U.S. imports by several percentage points as many are shipped through Singapore. U.S. products are also manufactured in other ASEAN countries and exported to Indonesia.<sup>48</sup> There was growth in colour cosmetics too, with lipsticks being especially popular. Consumers' acceptance of U.S. products is fairly high and they are well positioned in the Indonesian market. U.S. products include: Procter & Gamble, Clinique, Obagi, Estee Lauder, MAC, Elizabeth Arden, Revlon, Neutrogena, Cover Girl, Olay, H2O, Bath & Body Works, and Victoria's Secret. Among products used in beauty parlours, meanwhile, are Murad, Sothys, Dr. Cos, ROC, DuraSkin, and Miracle White.

Imports from South-East Asian neighbours, including Thailand, Vietnam, Malaysia and Singapore are growing in the wake of free trade agreements under the ASEAN Harmonized Cosmetic Regulatory Scheme, which makes imports mutually recognised by national authorities, as long as they are registered in any one of the member states. Nevertheless, import of personal care and cosmetics products into Indonesia still requires approval from BPOM, which can be obtained by local agents or distributors. The Indonesian Ministry of Industry reported that the domestic cosmetics industry increased by 153 companies in 2017, bringing it to more than 760 operations in total. Of these, small and medium-sized enterprises (SMEs) make up around 95% of the entire national industry, with the remainder being large-scale operations. Among the medium and large-scale operatives are those that export their products to ASEAN, African and Middle Eastern countries.

According to the Indonesian Cosmetics Association (PPA), ASEAN neighbour Singapore is still the largest potential market for the export of cosmetic products from Indonesia, as the island nation acts as a transit location before the Indonesian cosmetics are exported onwards,

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<sup>46</sup> Indonesia: Personal Care & Cosmetics Products. Cosmetics, Toiletries and Skincare Market Overviews 2016. The U.S. Department of Commerce.

<sup>47</sup> Ibid

<sup>48</sup> Ibid

mainly to Middle East and Latin American countries.<sup>49</sup>

The potential of the Singapore linkage was confirmed by 2016 figures, which reached USD 142.11 million (IDR 2.06 trillion) or 15.5% of the total value of national cosmetic trade exports for the year. At USD 916.12 million (IDR 13.28 trillion), the total value of Indonesia's cosmetic trade exports in 2016 recorded a surplus of USD 389.12 million (IDR5.64 trillion) over imports of USD 527.0 million (IDR 7.64 trillion). After Singapore, the country's largest cosmetics export from Indonesia was Malaysia (part of ASEAN) worth USD 87.33 million, followed by Thailand (also part of ASEAN) at USD 80.27 million.<sup>50</sup>

In addition, there are reports that Indonesia will explore opportunities of exporting beauty and cosmetics products to yet another ASEAN country, Laos. This was revealed by the Indonesian Chamber of Commerce for Traditional Culture-Based Industry.<sup>51</sup> According to the report, the Laos government realised that to date the country had not opened up to international trade, especially with neighbouring countries. Therefore, one of the objectives of the state visit of the Prime Minister (PM) of Laos, Thongloun Sisoulith, was to open trade relations with Indonesia.

With the Laos government desiring to open up international trade relations, this provides an opportunity for Indonesia to further strengthen its export market in the ASEAN region. With a population of around 9 million, and high economic growth and good purchasing power, Laos could well become a new potential growth market for Indonesian products, not just for beauty and cosmetic products but in other sectors as well.

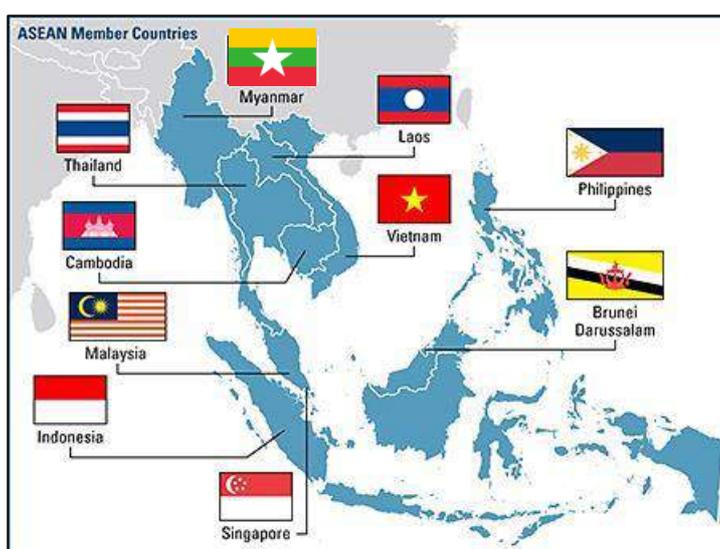


Figure 9: ASEAN Member Countries

Source: Wageningen University & Research 2018

The main products exported by Indonesian cosmetics producers include liquid bath soap amounting to USD 202.94 million, solid soap products at USD134.79 million, and perfume and

<sup>49</sup> Singapura Pasar Potensi Ekspor Kosmetik Indonesia. Okezone. 31 Jan 2017. Available at: <https://economy.okezone.com/read/2017/01/31/320/1606110/singapura-pasar-potensi-ekspor-kosmetik-indonesia>

<sup>50</sup> Ibid

<sup>51</sup> RI Jajaki Peluang Ekspor Produk Kosmetik ke Laos. Liputan 6. 12 Oct 2017. Available at: <https://www.liputan6.com/bisnis/read/3126502/ri-jajaki-peluang-ekspor-produk-kosmetik-ke-laos>

liquid fragrances at USD 109.99 million.<sup>52</sup> Solid soap exports destinations are usually to developing countries such as those in the Middle East and India. In addition, herbal cosmetic products from Indonesia are also favoured in many export destination countries.

By 2017, the export value of national cosmetic products reached USD 516.99 million (IDR7.49 trillion), an increased from USD 470.30 million in 2016 (IDR 6.82 trillion).<sup>53</sup> Moreover, demand in the domestic and export markets keeps increasing, along with the trend of the people who are starting to pay attention to body care products as their main needs.

However, despite the growth, the Indonesian cosmetics industry still has difficulty penetrating the export market. The Association of Companies and Cosmetic (Perkosmi) reports that exports of cosmetic products in Indonesia are relatively small, only USD 55.17 million (IDR 800 billion) or 1% of the total cosmetics market revenue which reaches IDR 80 trillion.<sup>54</sup> In contrast, imported products are considered to dominate the import market in Indonesia. As explained previously, the import market share in year 2015 is estimated at 60% of the total domestic market worth IDR 15 trillion.

According to the Ministry of Industry, Indonesian cosmetics exports averaged IDR 11 trillion (USD 758.62 million) annually. In order to be able to dominate the domestic market and expand exports, integration of the upstream and downstream sectors is essential. With 760 cosmetic companies already established in Indonesia, the sector can be considered a strategic industry with the ability to absorb 75,000 workers directly, plus a further 600,000 indirectly. Moreover, the cosmetics industry has strong potential in Indonesia, with the country having a large domestic market and already being a producer of cosmetics for export. In addition, it has sufficient qualified human resources plus abundant herbal ingredients as raw materials.

Export performance is greater than the import value of USD 441 million (IDR 6.39 trillion) so that the trade balance of cosmetic products has a surplus of around 85%. Nevertheless, a severe challenge exists as more than 90% of the raw materials for the manufacture of cosmetics are still imported to Indonesia. At the present time, operations within the country are still limited to formulation and mixing. To answer this, the government is currently planning to develop an integrated cosmetics industry encompassing both upstream and downstream activities and thus increasing raw material production with the intention of suppressing their import. This will be followed by strengthening domestic research and development (R&D) capability, product innovation, market research and widening the extent of the export market to other regions than are currently served.<sup>55</sup>

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<sup>52</sup> Ibid

<sup>53</sup> Industri Kosmetik Tumbuh 7,36%, Begini Imbasnya ke Perusahaan. Okezone. 20 Jul 2018. Available at: <https://economy.okezone.com/read/2018/07/20/320/1924969/industri-kosmetik-tumbuh-7-36-begini-imbasnya-ke-perusahaan>

<sup>54</sup> Ekonomi, Kosmetik, dan Perempuan. NewsLab UAJY Situs warta Atma Jogja. 4 Feb 2019. Available at: <http://newslab.uajy.ac.id/2018/04/09/ekonomi-kosmetik-dan-perempuan/>

<sup>55</sup> Ekspor Kosmetika Indonesia Capai Rp 11 Triliun. Kompas. 1 Jun 2016. Available at: <https://ekonomi.kompas.com/read/2016/06/01/170428126/ekspor.kosmetika.indonesia.capai.rp.11.triliun>

## II. NOTABLE BUSINESS PLAYERS

### 2.1. Large Domestic Manufacture

At present, more and more original Indonesian-made beauty brands rise and gets its fame. This provides a breath of fresh air for the development of local cosmetic brands to be able to compete with global brands. Some local Indonesian cosmetic brands have long been known to the public such as Sariayu, Mustika Ratu or Viva Cosmetics. The presence of new Indonesian cosmetic brands such as Wardah, Inez Cosmetics or Emina is alternative choices for consumers.

To attract buyers, cosmetic brands carry out various innovations and promotions to introduce their products to the public. In other words, marketing is really important in this sector. And, the presence of famous beauty bloggers and popular beauty vloggers who often review or review recommended makeup products contribute positively to the beauty brand. In terms of production, some brands manufacture products by their own or through its subsidiary while some others outsource to different party manufacturer.

Indonesia has approximately 760 manufacturers producing numerous cosmetic products, employing 75,000 people and sustaining an additional 600,000 jobs in related industries nationwide. These producers are mostly cottage industry level producing affordable cosmetics, soaps, lotions and skin care products. In terms of 2015 total domestic sales, Unilever Indonesia, Procter & Gamble Home Products Indonesia and L'Oréal Indonesia represent 50% of product sales. The longstanding presence of these companies is fuelling consumer interest in international beauty and personal care brands, which are perceived as being of higher quality. Many of these companies operate licensed manufacturing facilities in Indonesia including Pond's, Vaseline and Dove (produced by PT Unilever) and L'Oréal (produced by PT Yasulor Indonesia the subsidiary factory of PT L'Oréal Indonesia) and. Among the leading national brand cosmetic companies are PT. Martina Berto Tbk (brand: Sari Ayu), PT Mustika Ratu Tbk and PT Paragon Technology & Innovation (brand: Wardah Cosmetic). Some brands have similarities in following the market demand by producing colour make-up, traditional herbal and non-traditional skin care treatments.

#### 2.1.1. Wardah

Established in 1995, Wardah is the first halal cosmetics brand in Indonesia born from the parent company Paragon Technology and Innovation (PTI). Halal refers to what is "allowed" or "not contradictory" in traditional Islamic law. The holding company also produces other leading brands such as Make Over, Emina, IX, and Putri from their own factory. Paragon continues to strive to adjust the development of the company's business with the development of needs and the number of requests obtained directly from public. Wardah is indeed still the main contributor to PT Paragon Technology and Innovation's revenue.

In countries where the number of Muslims is more than 87% of the total population, Wardah has gained popularity among young Indonesian women, especially women who focus on halal products.

The Wardah brand claims to be able to control around 30% of the make-up / makeup market segment and was identified as the only Indonesian cosmetic brand that recorded sales growth of more than 20% in 2015-2016.

Among Indonesians, Wardah is known as an affordable brand with 300 company cosmetic

products for makeup, skin care and perfume in the price range of IDR 16,000 - IDR 667,000 (USD 1.20 - USD 50).

The company currently offers its products in 22,000 store locations in Indonesia and Malaysia and partners with Symon AnMi to sell a variety of products in Bangladesh.<sup>56</sup> Apart from offline stores, they also sell on marketplaces such as Lazada and Sociolla while brand.com functions only as a catalog and resource for company information.

Wardah also faces many challenges in cosmetics industry. At the beginning of its appearance, the company did not develop rapidly and locally because its marketing strategy projected its brand that exclusively served Muslims and relied on multi-level marketing (MLM) strategies to reach people in Islamic boarding schools. Some people even accused the founder and owner of the brand, Nurhayati Subakat, of selling religion. For a long time, Wardah products can only be found in salons because they cannot compete with local and global cosmetic brands such as Sariayu Martha Tilaar, Mustika Ratu, and L'Oréal .

The brand's strength is its innovation. To improve the company's image, Wardah began to encourage more inclusive campaigns that included models without hijab that were published in all television and print media advertisements. The message is crystal clear that Wardah halal-cosmetics are not only for Muslims or headscarves.



Figure 10: Wardah Advertisement Promotes Various Consumer Profiles

Source: Ecommerce IQ 2018

The popularity of the company also got a boost after sponsoring some of Indonesian box-office films. Since then, Wardah has often been seen as partnering with large-scale film production and fashion shows by Indonesian designers. One of these designers is Anniesa Hasibuan, the first Indonesian to present the New York Fashion Week collection which also includes hijabs.

<sup>56</sup> Strategi Cerdas Wardah untuk Produk Kecantikan Halal. Ecommerce IQ. 22 March 2018. Available at: <https://id.ecommerceiq.asia/brand-series-kosmetik-wardah/>



Figure 11: Fashion show from Anniesa Hasibuan at NYFW 2017 collection sponsored by Wardah

Source: Ecommerce IQ 2018

He also uses Runaway to overcome the current global problems by only using immigrant models for his fashion shows. Hasibuan's strong representation of "modern Muslim women" is a strong message that Wardah wants to link his brand to that of talking to the company's demographic targets.

In terms of production, PT Paragon Technology and Innovation has six factory areas covering 16 hectares in the Jatake Industrial Estate in Tangerang, near the capital Jakarta. It had been equipped with a Research and Development Center, Production Center and National Distribution Center. The objective of the company is that it can produce more than 135 million personal care and make-up products every year.<sup>57</sup>

By 2018, the holding company ensures that its production capacity is able to meet people's needs and provide positive results to the company. Despite that, Paragon Technology still intent to keep increasing its production capacity. The report said that PT Paragon Technology and Innovation (PTI) plans to increase production capacity in 2018.<sup>58</sup> This cosmetics manufacturer will increase production capacity due to increased demand for Wardah Cosmetic, Emina, Make Over, AX and Putri products.

At present, the production capacity of this company has reached 15 million pieces per month, which is almost close to the company's maximum capacity. Therefore land acquisition of 4.4 hectares of new land for additional capacity was carried out in 2017, and the process of adding production lines begins in 2018.

Bitter reality seems to be accepted by local players, Wardah. Because, one of the leading

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<sup>57</sup> Paragon hasilkan lebih dari 135 juta produk kosmetik. Kontan. 13 Jun 2018. Available at: <https://industri.kontan.co.id/news/paragon-technology-hasilkan-lebih-dari-135-juta-produk-kosmetik-tiap-tahun>

<sup>58</sup> Paragon Technology akan tambah kapasitas produksi tahun ini . Kontan. 7 Feb 2018. <https://industri.kontan.co.id/news/paragon-technology-akan-tambah-kapasitas-produksi-tahun-ini>

brands of local producers (Paragon) has not managed to shift the existence of foreign players. Only 4.1% of Indonesian women claim to use Wardah products every day. This percentage places Wardah in the sixth position as the favorite skincare producer in Indonesia.

Since the last three years, Wardah has been trying to replace their campaign from labeling halal products with a good message campaign. Wardah tries to reflect the good values of Islam into their brand.

Wardah is also exploring the Malaysian market, as it is optimistic that it can grow well to compete with Safi as a player with a similar positioning in the market. Including, strengthening the Indonesian market by adding product portfolios and expanding distribution.

### **2.1.2. Sariayu Martha Tilaar**

Since its establishment in 1983, PT Sari Ayu Indonesia has been known as a leading cosmetics company in Indonesia that produces and provides innovative and high-quality beauty products and services. With products that are widely known and under the holding's brand of Sariayu Martha Tilaar, this company offers a range of beauty products that can be the best choice for every woman of any age group and income.

According to the company, all beauty care products produced by PT Sari Ayu Indonesia are made from traditional herbal ingredients and other natural plant extracts from various regions in Indonesia. At present PT Sari Ayu Indonesia has produced various facial care, body care, decorative makeup, and hair care products for modern women.<sup>59</sup> Also it claims that all of their products are made from natural, safe and originated from Indonesia.

Not only that, the company also applies high enough specifications for every herbal ingredient that enters and will be processed into cosmetics. PT Sari Ayu Indonesia itself has a special division to handle this. Furthermore, the company revealed that it is currently developing extracts from hibiscus flowers. Hibiscus extract is known to have properties that are good enough to maintain the skin.

The tight competition in the domestic cosmetics market makes PT Sari Ayu Indonesia does various efforts. The company said that in the face of the increasingly fierce competition in the cosmetics market, the company is carrying out various product innovations. This step was taken so that PT Sari Ayu Indonesia would remain a major player in the cosmetics business in Indonesia.<sup>60</sup>

In terms of overseas market, Sariayu Martha Tilaar's products have exported its products to various countries such as Malaysia, Singapore and Brunei Darussalam. By taking Advantage in the Middle of the halal and women with hijab phenomenon, the company then makes cosmetic products that are needed specifically for the hijabis majorly live in these specific ASEAN regions.

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<sup>59</sup> Intip Strategi Bisnis Sari Ayu Indonesia Lawan Para Kompetitor. Indo Trading. 7 Feb 2019. Available at: <https://news.indotrading.com/intip-strategi-bisnis-sari-ayu-indonesia-lawan-para-kompetitor/>

<sup>60</sup> Ibid



Figure 12: Sariayu Martha Tilaar Products Selection

Source: Indo Trading 2018

For the hijabis, PT Sari Ayu Indonesia through Sariayu Martha Tilaar is more focused on providing various shampoo products and derivatives such as conditioners, hair tonic lotions to hair mist products. In order for the product to be known to the public, the company also cooperated with famous celebrities whom are known as modern hijab public figures in the country.

In addition to promoting customer experience, PT Martina Berto Tbk, as the owner of company Sariayu also began to improve its services through online through e-commerce Martha Tilaar Shop. Following the trend, the presence of Martha Tilaar Shop is expected to be an alternative shopping experience that makes it easy for consumers. Online transactions at [www.marthatilaarshop.com](http://www.marthatilaarshop.com) are expected to become an escape of retail dependence. Not only explores through this self-owned platform, the company also uses other e-marketplaces such as Lazada, Bilibli, Tokopedia and Shopee. According to the company, although customer experience at Martha Tilaar Shop outlets is still very important, they also continue to study millennial behavior.<sup>61</sup>

### 2.1.3. Mustika Ratu

PT. Mustika Ratu Tbk (MRAT), the brand owner of Mustika Ratu, is one of the listed manufacturing companies in the Indonesia Stock Exchange. In 1995 the company issued as much as 80,000,000 shares in its first trade and one of the marketing strategies adopted by the company is by becoming main sponsor of the “Puteri Indonesia” Beauty Pageant which the winner will participate in the Miss Universe.

With the aim of lifting the image of traditional Indonesian cosmetics to the global market, the brand now is indeed one of the largest and leading cosmetics and health care companies in the country. The company is sought after by several giant companies such as Oriflame, a Swedish company that seeks to buy Mustika Ratu patents to be marketed in Europe, and

<sup>61</sup> Skenario PT Martina Berto, Tbk Jalani Bisnis Ritel dan Consumer Goods. Martina Berto. 6 Feb 2019. Available at: <http://www.martinaberto.co.id/default.php?page=martinaberto&id=204&lang=id>

Unilever Indonesia who is also trying to approach and buy PT Mustika Ratu shares.

As a result of the company's marketing strategies that use endorsers as a driver of sales, Mustika Ratu has established itself as a company that has a good image domestically in the eyes of consumers, because most of its products are used by celebrities and public figures. Another reason is rather component wise because it is one of brands that promote natural ingredients from plants amid the issue of the rise of cosmetics containing dangerous chemicals.



Figure 13: Mustika Ratu Markets the Brand through “Puteri Indonesia” Beauty Pageant

Source: Viva Newstainment 2018

At present, there are many cosmetic manufacturers in Indonesia. But only a few companies produce cosmetics with natural or herbal raw materials. MRAT as a manufacturer of cosmetics and health care emerged as a pioneer in developing products using herbal ingredients. With more than 30 years of experience in this industry, the company can maintain a consistent Indonesian culture is a proof that modern era does not hinder the sale of MRAT to grow.

By 2014, the company has opened a new export market for China and Pakistan.<sup>62</sup> While the plan to develop the export market in the future includes several countries such as Nigeria, the Philippines and Thailand. Currently the company is actively engaged in marketing strategies, especially in Malaysia, by increasing market penetration in modern markets and placing sales representatives in each distributor. While in other countries the strategy is to add product items such as *Ginteh* products in Saudi Arabia and *Ayudara* series products in Russia. While in Brunei Darussalam and Hong Kong, the company implements the Pareto Product system so that product inventories become more controlled and hence its service level increases. In addition, the company continues to improve promotions, especially below the line promotional activities.

The Company has an extensive distribution network, in several branches in major cities on the island of Java coupled with dozens of distributors throughout Indonesia and Abroad. In carrying out the production process the company has implemented *CPKB*, or in Indonesian the Good Cosmetics Production Method, and *CPOTB*, or in Indonesian the Good Method of

<sup>62</sup> Strategi Perusahaan Mustika Ratu. Floreseyunidian. 12 Jan 2014. Available at: <http://floreseyunidian.blogspot.com/2014/01/strategi-perusahaan-mustika-ratu.html>

Production of Traditional Medicines so that the production results can be received by local and foreign markets.<sup>63</sup> In a business climate where competition is very stiff, product demands are according to taste consumers become difficult because choices in the market are very diverse, so products that are quality, practical and economical are needed.

In 2018, the company is aiming for a number of opportunities to strengthen its business. Industry-wise, demand for cosmetic products is believed to continue to grow, especially in the decorative cosmetics segment.<sup>64</sup> Such types of cosmetics are ranging from cleansers, moisturizers and protectors and make-up. The reports suggested that the types of cosmetics that support life style and appearance tend to grow quicker. Mustika Ratu will also boost promotions in various smaller regions in Indonesia in order to strengthen the market and serve growing demand through modern outlets and minimarkets.

As for production, MRAT manufactures cosmetics in the Ciracas, Jakarta. Its liquid cosmetic production capacity is 3.2 million products per month. Besides cosmetics, the factory complex produces herbal medicine with a capacity of 633,000 units per month. In total, the production capacity of solid cosmetics by the company is 102,000 units per month.<sup>65</sup>

#### **2.1.4. Unilever Indonesia Brands**

Unilever is a multinational company with headquarters located in Rotterdam, the Netherlands (Unilever N.V.) and London, UK (Unilever plc.). In addition to cosmetic products, Unilever also produces food, beverages and cleaners. In Indonesia, this company is represented by PT. Unilever Indonesia Tbk.

Unilever has a total of 38 beauty sub-brands such as Pond's, Dove, TIGI Vaseline, Nexxus and many more. Unilever is also the owner of the beauty brand Citra, Fair & Lovely, St. Ives and Lakmé. Well known for its distinct packaging in Indonesia, Unilever's annual profit is up to USD 22.3 billion or IDR 301 trillion from the sale of beauty products only.

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<sup>63</sup> Ibid

<sup>64</sup> Mustika Ratu ingin percantik penjualan lewat promosi di daerah. Konta. 11 Jul 2018. Available at: <https://investasi.kontan.co.id/news/mustika-ratu-ingin-percantik-penjualan-lewat-promosi-di-daerah>

<sup>65</sup> Mustika Ratu geser fokus distribusi ke minimarket. Kontan. 14 Nov 2017. Available at: <https://industri.kontan.co.id/news/mustika-ratu-geser-fokus-distribusi-ke-minimarket>



Figure 14: Brands Managed by Unilever

Source: Popbela 2017

By end of year 2008, PT Unilever Indonesia Tbk inaugurates its Asia's largest skin care factory in Indonesia. The factory located in Jababeka Industrial Estate, Cikarang, and was built with an investment amount to IDR 500 billion.

According to the report from the company, Indonesia was chosen as the location for the construction of a new factory after a rigorous assessment by Unilever globally by considering many things, especially the competitiveness of the investment climate. This is proof that Indonesia remains an attractive and potential place for foreign investment. Therefore we hope the government can continue to maintain this investment climate.

The factory built on an area of 10 hectares has a building area of 22,500 square meters. Products produced from this 53,000 ton capacity plant per year are including Vaseline, Pond's, Dove, Lux, Lifebuoy and Citra. The six products produced are not only to meet domestic demand but also exported to several other Asian countries such as Singapore, Thailand, Malaysia, the Philippines, Pakistan, India and Vietnam. Before building this new factory, Unilever already had seven factories in Indonesia. These factories are located in Cikarang and Rungkut (Surabaya) with a capacity of 76,000 tons per year.

Currently, Unilever is still the market leader in the skin care market in Indonesia, which grows at an average of 10% per year. Some of its superior products are Pond's and Citra. Pond's market in Indonesia is Pond's biggest business contributor worldwide while Citra has also been exported to various countries. The company's growth continues to increase with the level of sales may reaching IDR 12 trillion.<sup>66</sup>

As for its another beauty brand Lakmé, Unilever Enterprises Indonesia, a sister company of PT Unilever Indonesia Tbk, officially launched Lakmé Absolute Reinvent in 2017.<sup>67</sup> This new cosmetics product was created by a French woman named Simone Tata in 1952 who was inspired by an opera in Paris. He has a mission to make women appear more confident and

<sup>66</sup>Unilever Buka Pabrik Terbesar se-Asia di Cikarang. Detik Finance. 3 Dec 2008. Available at: <https://finance.detik.com/berita-ekonomi-bisnis/d-1047098/unilever-buka-pabrik-terbesar-se-asia-di-cikarang>

<sup>67</sup> Pertaruhan Unilever Indonesia di Brand Makeup Perdana . SWA. 14 sep 2017. Available at: <https://swa.co.id/swa/trends/marketing/unilever-luncurkan-lakme-absolute-reinvent>

can express themselves with their beauty.

The company said that beauty is one of the most dynamic markets in Indonesia, because it is an integral part of women. The colour cosmetics segment has enormous potential with rapid growth rates in Indonesia. For this reason, Unilever launched its first makeup brand in Indonesia. According to the report by company, the presence of Lakmé absolute Reinvent in Indonesia is to provide an instant transformation that is glamorous for the wearer, making them an attractive trendsetter at all times.

For marketing purposes, Lakmé Absolute Reinvent collaborated with the famous Mario Dedivanovic, from Hollywood in the product launching event. Using Lakmé Absolute Reinvent products, Mario managed to create a glamorous and charming makeup.

Various interesting events were also presented at the Glam Week event at shopping malls in Jakarta including Glam Class. In this activity, every day the beauty experts will share makeup tips for the best variety, a free makeover by the glam stylists and Glam Cafe that provide coffee with a beautiful, ordering latte art.<sup>68</sup>

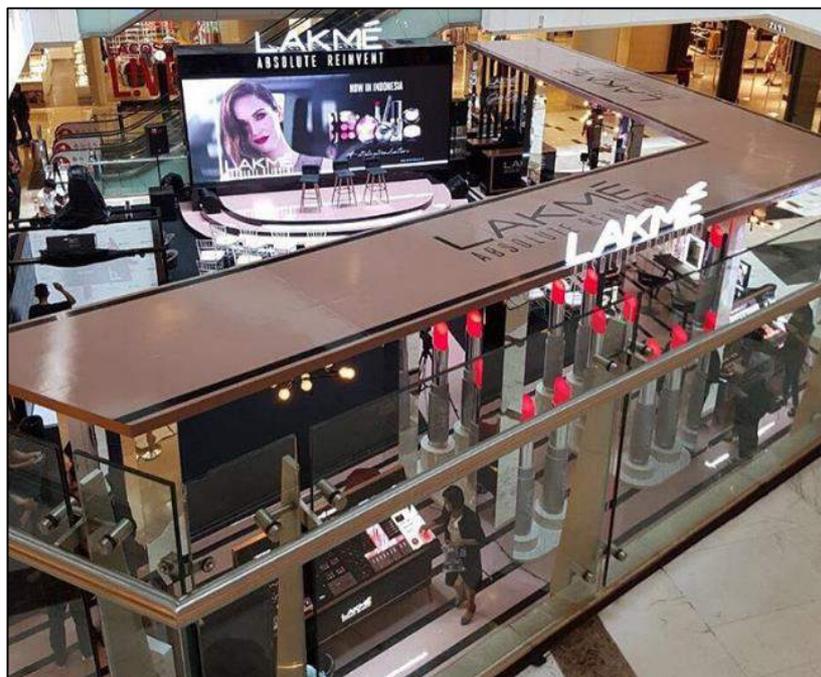


Figure 15: Lakmé Launching at Grand Indonesia Shopping Centre, Jakarta

Source: Lakmé Makeup Official Instagram 2017

As for sales distribution for this product, it is carried out in major retailers such as Central, Sogo, Metro, Matahari and Transmart Department Stores as well as through online shopping on the site Lakmemakeup, Lazada, Blibli, Shopee, Sociolla and JD.id.

### 2.1.5. Mandom Brands

PT Mandom Indonesia Tbk was established as a joint venture between the Japanese Mandom Corporation and the Indonesian PT The City Factory. The Company was incorporated bearing the name PT Tancho Indonesia and have been changed to PT Mandom Indonesia Tbk (listed as TCID) since 2001. On 1993, the Company became the 167<sup>th</sup> company listed at the

<sup>68</sup> Ibid

Indonesia Stock Exchange. At the moment, the Company's number of share is 201,066,667 shares with nominal value IDR 500/share.<sup>69</sup>

The Company's commercial production was started on 1971 where the Company initially produced hair care products, which then developed by producing fragrances and cosmetics. The Company has two factories in Cibitung, Bekasi, near the capital city Jakarta, being the first one is specialized in producing the whole cosmetics product lines of the Company while the second factory produces plastic packaging and also serves as the logistics centre. By 2013, the company increased its cosmetic production capacity from 970 million pieces per year to 1.55 billion pieces per year. The total investment for the construction of the plant was estimated at IDR 390 billion.<sup>70</sup>

The Company's main brands are Gatsby, Pixy, and Pucelle. Besides that, the Company also produces other products under the brand Tancho, Mandom, Spalding, Lovillea, Miratone, and also some brands produced specifically for exports.



**Figure 16: Mandom Factory in Cibitung, Indonesia**

**Source: Mandom Official Website 2018**

Besides domestic market, the Company also exports its products to some countries such as United Arab Emirates (UAE), Japan, India, Malaysia, Thailand, and others. Through UAE, the Company's products are re-exported to some countries in Africa, Middle East, Eastern Europe, and others.

Specifically for its beauty brand, Pixy, the company markets its products by organizing a series of Beauty Workshop in 2018. With new tagline: My Beauty My Energy, which means beauty is the emotional energy of Asian women, Pixy wants to encourage the confidence, mood, appearance, acceptance of its consumers hence they have and share positive energy with people around them.

<sup>69</sup> The Company in Brief. Mandom Official Website. 8 Feb 2019. Available at: <http://www.mandom.co.id/en/company-in-brief>

<sup>70</sup> Mandom tambah kapasitas produksi. Kontan. 22 Mar 2013. Available at: <https://industri.kontan.co.id/news/mandom-tambah-kapasitas-produksi>



**Figure 17: Selection of Pixy Beauty Products**

**Source: Mandom Official Website 2018**

The concept of the show is serious but relaxed, as there are beauty workshops, talk shows and entertainment but, there are also lots of games and entertainment. According to the company, this activity is intended to bring Pixy closer to consumers.<sup>71</sup>

As for the overall holding company's performance, the cosmetics manufacturer noted that sales during January-September 2018 fell slightly to IDR 2.04 trillion. Based on the company's third / 2018 quarterly financial statements, the figure fell by 1.34% compared to the total net sales in the January-September period the year before which reached IDR 2.07 trillion.<sup>72</sup> Thus, the company's profit is also eroded. In 2018, TCID shares recorded a net profit for the period worth IDR 150.32 billion, a decrease of 6.99% compared to the same period last year which was valued at IDR 161.63 billion.

The decrease in profit was partly due to the increasing of cost of goods sold, which was from IDR 1.29 trillion in 2017 to IDR 1.31 trillion in the period ended September 2018 or augmented by 1.46%. Meanwhile, the company's current assets as of the end of September 2018 reached IDR 1.33 trillion and non-current assets worth IDR 1.09 trillion, bringing the total assets to IDR 2.43 trillion.

### **2.1.6. L'Oréal Brands**

This brand is currently the global market leader with not less than 39 beauty brands including Lancome, Maybelline, Urban Decay, Garnier, Essie and The Body shop. L'Oréal also has several high end skin care and hair care brands such as Pureology, La Roche-Posay and SkinCeuticals. In 2016, it was estimated that the company's profits reached USD 27.6 billion or IDR 373 trillion according to Beauty Packaging data.<sup>73</sup>

<sup>71</sup> Pixy Kenalkan Produk Kecantikan Terbaru, Diskon 20 Persen. Tribun Medan. 8 Sep 2018. Available at: <http://medan.tribunnews.com/2018/09/08/pixy-kenalkan-produk-kecantikan-terbaru-diskon-20-persen>

<sup>72</sup> Kuartal III/2018, Penjualan Mandom Indonesia (TCID) Turun Tipis. Bisnis. 1 Nov 2018. Available at: <https://market.bisnis.com/read/20181101/192/855514/kuartal-iii2018-penjualan-mandom-indonesia-tcid-turun-tipis>

<sup>73</sup> 7 Perusahaan Besar yang Menguasai Semua Produk Kecantikan . Popbela. 31 Dec 2017. Available at : <https://www.popbela.com/career/inspiration/ria-theresia/7-perusahaan-yang-menguasai-semua-produk-kecantikan/full>



Figure 18: Brands Managed by L'Oréal

Source: Popbela 2017

In Indonesia, PT L'Oréal Indonesia is a marketing and distributor company for L'Oréal products. Meanwhile, PT Yasulor Indonesia is the L'Oréal Indonesia manufacturing plant. Both are subsidiaries of L'Oréal Group based in France. The group has 15 Active brands selling in the country namely Garnier, Maybelline, L'Oréal Paris, Kiehl's, Lancôme, Matrix, Kersatase, L'Oreal Professional are to name a few.

Garnier is the number one sales for the skincare brand whereas, L'Oréal is the number one for professional products in the country of hundreds of thousands of salons. The group also has a wide range of prices from accessible to premium to answer all consumer needs in all parts of the world. With around 32 brands worldwide, L'Oréal is spread in 140 countries with 82,880 employees.



Figure 19: Selection of L'Oréal and Garnier Products in Indonesia

Source: MultipleSources 2018

PT L'Oréal Indonesia began domestic production in 1986. Around 2013, under the name of PT Yasulor, L'Oréal began operating a plant in the Jababeka industrial area, Cikarang, West Java with the production line being hair and skin care products for the L'Oréal Paris and Garnier brands. This factory is now the largest L'Oréal factory in the world as it has been investing many capitals to build assets in Indonesia. According to the company, this is because Indonesia is the fastest growing L'Oréal market and is the biggest contributor to economic

growth in the Asia Pacific region.<sup>74</sup>

According to the L'Oréal Asia Pacific Executive Vice President, the selection of investment in Indonesia was based on relatively stable economic growth and the fastest growth of the L'Oréal market in Asia Pacific. The company makes 70% of the production from the factory in Indonesia exported to the Southeast Asia (ASEAN) region. Meanwhile, the remaining 30% is for meeting domestic needs.<sup>75</sup> It is revealed, the investment value that was disbursed to build the factory was EUR 100 million, equivalent to IDR 1.25 trillion for 6 years.

Up until now PT Yasulor continues to increase production and sales of up to hundreds of millions of units per year. In addition to the promising prospects, this L'Oréal Group subsidiary adheres to values that prioritize human resources and environmental sustainability.<sup>76</sup> Interestingly, L'Oréal Group has products that are produced ethically and are environmentally friendly. The company was awarded the World's Most Ethical Company for environmental issues, L'Oréal has a tradition of research since a century ago trying to produce environmentally friendly products with environmentally friendly production methods. Even PT Yasulor's factory is the first factory in Indonesia to obtain a LEED-Certificate or certificate for green spatial and interior.<sup>77</sup>

Even though L'Oréal is number 1 beauty product in the world, the brands' share in Indonesia is still relatively small. In Europe, L'Oréal is positioned as a mass product sold in any supermarket. However, the purchasing power per capita of Europe is different from Indonesia. Because of this difference, L'Oréal is still considered a premium item in the Indonesian market hence it adjusts the selling prices to the majority mass market.

According to the company, they refer themselves as the premium of mass brands (Indonesian: *massal-prestis or mastis*).<sup>78</sup> So, the premium image must be maintained while at the same time they target mass Indonesian consumers. One of the ways is to campaign for the Cannes Film Festival which also encourages L'Oréal's makeup products. The brand is quite ambitious in the Indonesian market. So far, L'Oréal's group products have become the fastest FMCG in Indonesia, including Garnier and Maybelline products. L'Oréal Paris products themselves also experienced double digit annual growth ranging 10-30% in recent years.

## 2.2. Select Imported Brands

### 2.2.1. European and American

#### 2.2.1.1. *The Body Shop*

One of the most popular skincare players in Indonesia is the beauty brand based in the United Kingdom, The Body Shop. Owned by L'Oréal Group, the products offered by The Body Shop are quite diverse, ranging from facial, body, make-up, perfume, to hair care products they

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<sup>74</sup> PT Yasulor Indonesia (L'Oreal) Ingin Jadi Perusahaan Kosmetik No. 1 di Indonesia. Career News. 28 Aug 2016. Available at: <https://careernews.id/ecccorner/view/4086-pt-yasulor-indonesia-loreal-ingin-jadi-perusahaan-kosmetik-no-1-di-indonesia>

<sup>75</sup> Pabrik Terbesar L'Oreal Rp 1,25 Triliun Resmi Berdiri di Indonesia. Detik Finance. 7 Nov 2012. Available at: <https://finance.detik.com/industri/d-2085099/pabrik-terbesar-loreal-rp-125-triliun-resmi-berdiri-di-indonesia>

<sup>76</sup> Ibid

<sup>77</sup> Ibid

<sup>78</sup> Jurusan L'Oréal Masuk Pasar Massal dengan Citra Premium. SWA. 9 May 2013. Available at: <https://swa.co.id/swa/trends/marketing/jurus-loreal-masuk-pasar-massal-dengan-citra-premium>

offer.

In Indonesia, the brand has an image as a green & ethical beauty brand since its first entrance to the country in 1992. The company is present under the banner of PT Monica Hijau Lestari headquartered in Bintaro, Tangerang. The Body Shop Indonesia's first franchise store is in Pondok Indah Mal, followed by a store in Citraland both are in the capital Jakarta. By 2018 The Body Shop Indonesia already has 100 stores spread throughout the country covering Sumatra, Java, Bali, Kalimantan and Sulawesi.<sup>79</sup>

In some of its stores in Indonesia, customers can try makeovers for free by the makeup artist and skincare expert of The Body Shop. By integrating five company values, namely Against Animal Testing, Support for Community Fair Trade, Activating Self Esteem, Human Rights Defend, and Protect Our Planet in its design, the Body Shop Store is a warm and friendly space for everyone to experience what the company says as "Beauty with Heart".

With the spirit of Beauty with Heart, the company wants to convey that the true meaning of beauty comes from the heart. Beauty is not just an attractive face (looking good), but true beauty also speaks of feeling good about oneself (feeling good) and doing good deeds to the environment and others (doing good).

The company continues to run a number of strategies to attract customers, especially young people. One of them is by appointing famous public figure Cinta Laura as a Brand Ambassador. The company said that the youth segment in Indonesia is important to get. Because some time ago the Body Shop was known as a product that is widely used by adults.

The Body Shop also releases innovative products that are in line with this millennials generation. Like products from Korea, the Body Shop also releases masks made from charcoal, ginseng and rice. However, Body Shop does not issue mask products in sachet packaging for environmental reasons.



Figure 20: The Body Shop Outlet in ICE BSD, near Jakarta

<sup>79</sup> The Body Shop Indonesia Buka Toko ke-100. SWA Online. 29 Nov 013. Available at: <https://swa.co.id/swa/trends/marketing/the-body-shop-indonesia-buka-toko-ke-100>

Source: Body Shop Indonesia Official Twitter 2017

The Body Shop also comes with a new concept in its shop. Currently the brand has five stores equipped with facilities such as sinks, make up tables, consultation tables, and skincare navigation in Indonesia nationwide. With this additional facility, the average length of visit at the initial store from 12 minutes to 35 to 38 minutes. The Body Shop also actively markets their products online and offline. Not infrequently, they often carry out various promotional activities, such as "Buy 3, Get 20% Discount", bonus gimmick (exclusive pouch), or in the form of a partnership.

In 2018, The Body Shop collaborated with Tiket.com to do a promo to boost their online sales.<sup>80</sup> Consumers, who purchase The Body Shop products on their official website for specific time duration, with certain amount of minimum purchase, have the opportunity to win a Tiket.com e-voucher. Unfortunately, despite being quite active in holding various forms of promotion, The Body Shop still cannot shift the existence of SK II and Laneige in the Indonesian beauty market.

### 2.2.1.2. Procter & Gamble Brands

Procter & Gamble Co. is a multinational company founded in 1837 based in the USA, engaged in the personal care industry, health care and household cleaner. P&G has around 54 brands that are marketed worldwide. Globally, it has a total of 9 beauty products including Head & Shoulders, Herbal Essences to Olay and SK-II. In Indonesia, P&G itself generates USD 18 billion from its beauty products.<sup>81</sup> In Indonesia, P&G has several flagship cosmetic products, such as Shampoo Pantene which control more than 23.4% of the shampoo market share in the country, and beauty products including those of Olay and SK II. P&G cosmetics products marketed in Indonesia were imported from abroad.



Figure 21: Brands Managed by P&G

Source: Popbela 2017

In Indonesia P&G distributes shampoo brands Pantene, Rejoice and Head & Shoulders. Currently Pantene shampoo has four types of variants namely anti dandruff, total care, hair fall, smooth & silky, recently Pantene launched a new variant of Nature Care. For the promotion channel for Pantene only, the company still uses most of the promotion budget for conventional media, such as television and print media. According to P&G records, television has a wide range and in accordance with the behaviour of Indonesian consumers who still really like watching TV.

<sup>80</sup> Ini Enam Merek Skincare Terfavorit Perempuan Indonesia. Marketeers. 30 Jan 2019. Available at: <http://marketeers.com/ini-enam-merek-skincare-favorit-perempuan-indonesia/>

<sup>81</sup> 7 Perusahaan Besar yang Menguasai Semua Produk Kecantikan . Popbela. 31 Dec 2017. Available at : <https://www.popbela.com/career/inspiration/ria-theresia/7-perusahaan-yang-menguasai-semua-produk-kecantikan/full>



Figure 22: Pantene Brand Advertisement in Indonesia

Source: Pantene Official Website 2018

Apart from conventional media, P&G also relies on social media channels, in this case Facebook. The brand approach consumers and listen to their input. On social media, they also present relevant content and share useful things, not just a logo.

For below-the-line activation (BTL), Pantene often conducts gatherings with bloggers. They also appoint brand ambassadors who can represent Indonesian women. In this case, Pantene took the national and international famous singer Anggun and actress Raline Shah. Besides that, the brand also intensively carries out promotions in supermarkets.

Towards other segment, Pantene and other brands such as Rejoice explores the mass market by markets its product in sachet packaging. The majority mass Indonesian market that likes to try various kinds of products makes Rejoice brand markets disposable products such as in sachets priced in retail only as low as IDR 1,000 or EUR 0.06.



Figure 23: Rejoice Sachet Product Advertisement targeting Mass Consumers

Source: Rejoice Official Twitter 2018

Historically, PT. P&G Indonesia was established in 1989, the company handles the distribution of some P&G products for marketing throughout Indonesia. Not only cosmetics, the company other products namely shavers (Gillette brand), facial care (Olay), pastes and toothbrushes (Oral B), clothing softener (Downy), battery and flashlight (Duracell) and disposable diapers (Pampers).

Since 2004 the products sold on the Indonesian market have not been produced domestically. Products sold in the ASEAN region are shampoos produced by P&G in Thailand, Vietnam, the Philippines and Malaysia because of lower production costs.

The P&G factory in Thailand specifically produces skincare and shampoo, the Philippines produces homecare such as detergents and pampers, Vietnam produces shampoo, powder detergent, and Malaysia produces foods and snacks. P&G number of product consumers worldwide reached 5 billion by 2015. While, their product consumers have reached 4 billion people by the same year.<sup>82</sup>

By 2011 PT P&G Home Products Indonesia invested USD 100 million to build its first factory in Indonesia. The construction of this disposable diaper factory was carried out within 3 years. This plant is located in Karawang, West Java and is equipped with modern facilities to produce Pampers brand baby diapers for ASEAN region market.

Meanwhile, P&G Indonesia also cooperates with PTPN III to enter the oleochemical industry sector in the Sei Mangke Industrial Area, North Sumatra. This is to meet supply needs for P&G to get fatty alcohol supplies up to 200,000 tons per year. Because P&G requires guaranteed supply in the form of fatty acids and vegetable oil from Indonesia to support the P&G global distribution chain.

At present the national fatty alcohol production capacity reaches 320,000 tons from three producers, namely PT Ecogreen Oleochemicals, PT Musim Mas, and PT Bakrie Sumatera Plantations. National production capacity will increase to 784,000 tons following the operation of Wilmar Group with a capacity of 464,000 tons per year in Gresik, East Java.

## **2.2.2. Japanese and South Korean**

### **2.2.2.1. Shiseido**

Shiseido is a Japanese multinational personal care company that produces skin care, hair care, cosmetics and fragrance products. It is in fact one of the oldest cosmetics companies in the world. Founded in 1872, it celebrated its 140<sup>th</sup> anniversary in 2012. It is the largest cosmetic firm in Japan and the fifth largest cosmetics company in the world.

Shiseido is only available at cosmetic counters at selected department stores or pharmacists. The company owns numerous brands and subsidiaries worldwide include bareMinerals, Nars and Laura Mercier. Many Shiseido brands are only marketed in Japan and some Asian countries that are claimed to whiten skin such as Majolica Majorca, Ettusais, Maquillage and Aqua Label. In 2016, this Japanese company made a profit of USD 6.3 billion or IDR 85 trillion based on Beauty Packaging data.<sup>83</sup>

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<sup>82</sup> Industri Shampoo Pertumbuhannya Lambat. Datacon. Sep 2011. Available at: <http://www.datacon.co.id/Toiletries-2011Sampo.html>.

<sup>83</sup> 7 Perusahaan Besar yang Menguasai Semua Produk Kecantikan . Popbela. 31 Dec 2017. Available at : <https://www.popbela.com/career/inspiration/ria-theresia/7-perusahaan-yang-menguasai-semua-produk-kecantikan/full>



Figure 24: Brands Managed by Shiseido

Source: Popbela 2017

In Indonesia, the company initially launched sales activities in 1958. Then since 1994, the Company has been steadily increasing sales by marketing its products through its distributor, PT Dian Tarunaguna, a Sinar Mas Group company.<sup>84</sup> Exploring the possibility of direct investment in the high-potential Indonesian market, Shiseido decided to establish the joint venture by taking the existing collaborative relationship with the Sinar Mas Group to new heights.

In 2014, PT Shiseido Cosmetics Indonesia was established. Shiseido concluded a joint venture agreement in the country with PT Sinar Mas Tunggal, a group company of the conglomerate company of Sinar Mas Group. Shiseido and the Sinar Mas Group equity shares are 65% and 35% respectively of the company. With these new joint efforts, of which investment amounted to IDR 50 billion, Shiseido started a new era of the brands marketing and distribution in Indonesia and tried to bring an even stronger value to customers in the country and region.<sup>85</sup>



Figure 25: Selection of Shiseido Brands Products marketed in Indonesia

<sup>84</sup> Shiseido Expands Indonesia Operations with Joint Venture. Business Wire. 11 Feb 2019. Available at: <https://www.businesswire.com/news/home/20140410005532/en/Shiseido-Expands-Indonesia-Operations-Joint-Venture>

<sup>85</sup> Ibid

Source: Multiple Sources 2018

In the Indonesian market, which offers high growth potential, Shiseido strives to boost sales not only by continuing to foster its SHISEIDO global brand promoted around the world, but also by stepping up focus on the masstige market. This sector is the largest cosmetics market zone and is anticipated to maintain strong growth. Masstige is a term coined from “mass” and “prestige”, refers to a category that is “more expensive than mass-produced products, but more moderately priced compared to prestige products.”

In addition to its SHISEIDO global brand, Shiseido Indonesia has been selling its ultimate high-end brand: Clé de peau Beauté since 2010, available in prestige department store channels. In 2017, Clé de Peau Beauté its new counter located at a prestigious shopping mall of Plaza Senayan in capital Jakarta.<sup>86</sup>

Through another brand, the Company will not only reinforce its prestige product category, but also strengthen marketing efforts for the masstige segment with Za, a skincare and makeup masstige brand that targets specifically Asian women consumer in their 20s.

#### 2.2.2.2. *Laneige and Innisfree*

South Korea is the new barometer and role model of world beauty as the K-beauty brands spread to various ASEAN countries including Indonesia and Laneige as well as Innisfree are some of them. The brands are certainly two of the most innovative in the region. Laneige and Innisfree are indeed part of AmorePacific Group Company which also oversees other brands such as Sulwhasoo, and Etude House. Collectively, all products that are under the control of AmorePacific group managed to occupy the second position as the best-selling skincare product in Indonesia. As for Laneige alone, it successfully captures 7.7% of the entire Indonesian beauty market share.<sup>87</sup>

"Sparkling Beauty" is the slogan used by Laneige and what the brand tries to sell to its consumers. According to its official website, Laneige has discovered the secret of Sparkling Beauty by perfecting its Water Recipe for every type of skin. The recipe is developed for each different skin problem caused by reduced facial skin vitality due to stress and bad environmental exposure.

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<sup>86</sup> Cle De Peau's New Counter Opening Party. Indonesia Tatler. 18 Jan 2017. Available at: <https://indonesiatatler.com/events/cle-de-peau-s-new-counter-opening-party/1>

<sup>87</sup> Cara Innisfree Pasarkan Kecantikan Korea. Marketeers. 30 Jan 2018. Available at: <http://marketeers.com/iklan-brand-anda-lebih-efektif/>



Figure 26: Laneige and Sulwhasoo within Lotte Duty Free in downtown Jakarta

Source: Moodie Davitt Report 2013

One of the brand's most favourite products is the Two-Tone Bar Lipstick which is a two-colour side-by-side lipstick in one product. This is to capture the trend of applying *ombre* colours (a style in which two or more shades) among Indonesians, this product targets woman who want to get these results on her lips. In addition to its hip and innovative designs, Laneige also relies on their brand ambassadors, such as South Korean actress Song Hye-Kyo, which was favoured by many Indonesian women after successfully popularizing a Korean drama entitled "Descendants of the Sun".

As for Innisfree brand, Amorepacific has again succeeded in bringing their shade products to dominate the Indonesian market. Innisfree was introduced to the country only two years ago but already managed to control 4.6% of the Indonesian beauty market. The way Innisfree competes in this competition is quite interesting, among others by following regional pricing standards. The prices of Innisfree products sold in Indonesia are not much different from the prices of products sold in Korea. Innisfree also utilizes the use of VR technology in their offline store to provide more experience for customers.

Although new, Innisfree is quite aggressive in making a fortune in the national cosmetic market. This brand has opened outlets in Indonesia big cities such as three outlets in Jakarta and one outlet in Bandung. According to the company, Indonesia is one of thirteen countries currently expanding potential markets. In the near future, the brand plans to open further branches outside the Jakarta, Serpong and Bandung areas such as in the Central Java region. Furthermore it also plans to expand even more through the online platform. In addition, Innisfree collaborates with company PT Time International, a luxury watch retail company, which acts as a store operator.



Figure 27: Crowds in One of Innisfree Events in Indonesia

Source: Multiple Sources 2018

Korean fever which still adorns television and digital media makes Korean things such as Innisfree attracts the attention of consumers. But, to intensify their awareness even more, Innisfree cooperates directly with the figure of the global ambassador Yoona, one of girl band SNSD's personnel, the Korean girl brand with the biggest followers of social media in the world. Innisfree also often recruits local beauty vlogger in creating word-of-mouth marketing.

One example is when Innisfree opened its seventh outlet in Surabaya. Innisfree's brand ambassadors namely Yoona Girls' Generation and Korean actor Lee Min Ho who are also loved by Surabaya residents used as a successful marketing tool. In fact, customers were willing to stand in line for hours in effort to getting souvenirs with Yonna prints on it and Lee Min Ho's photobooks. In addition to that several products from Innisfree for free, namely Pomegranate Essence and Cream, and one between Sebum Powder, Volcanic Mask and Orchid Enriched Cream are also distributed for free as the main marketing event.<sup>88</sup>

<sup>88</sup> Pelanggan Innisfree Rela Antre 3 Jam untuk Dapatkan Photobook Lee Min Ho dan Kipas Yoona. Surya. 17 Aug 2018. Available at: <http://surabaya.tribunnews.com/2018/08/17/pelanggan-innisfree-rela-antre-3-jam-untuk-dapatkan-photobook-lee-min-ho-dan-kipas-yoona>



Figure 28: The Three out of First 150 Happy Consumers in the Innisfree Surabaya Outlet

Source: Surya 2018

Although cosmetics enthusiasts in Indonesia dubbed the brand as the pioneer of "cushion foundation", Innisfree tends to emphasize themselves as skin care brand rather than cosmetics. Products such as facial wash, masks and lotions are the mainstay of embracing local consumers, especially millennials. According to the brand source, Skin care has become the brand's mainstay in the Indonesian market, which controls 60% of Innisfree sales. The rest is divided into cosmetics and hair care targeting the famous urban millennium segment who demands Innisfree to be able to provide effective, comfortable and practical solutions to skin care products. Nevertheless, one challenge for the brand is that not all Indonesian skins are compatible with cosmetics with ginseng ingredient.

So far AmorePacific has sold a total of 650,000 units cushion compacts in ASEAN countries, and the cumulative number is expected to hit the 1 million mark this year. To solidify its foothold in ASEAN, the company has strengthened its research and production capabilities in the region.<sup>89</sup>

In January, the company began a Research and Innovation (R&I) lab in Singapore. With the aim of developing ASEAN-tailored products and addressing regulatory issues, the firm plans to develop the lab as its ASEAN research hub. At the same time, it is building its new production base in Nusajaya, Malaysia, and is scheduled to complete it by 2020. It is its third overseas factory, following production lines in France and China. After products have now spread in Thailand, India, Indonesia and Vietnam, AmorePacific is determined to become the top cosmetics producer in ASEAN by 2020 with annual sales target of KRW 500 billion.<sup>90</sup>

### 2.3. Contract Manufacturing Service

Contract Manufacturing service or such as Cut, Make and Trim in textile industry (Indonesian: *Maklon Kosmetik* or *Kontrak Manufaktur*) means the manufacturing activity is carried out by certain institution which requested by other parties who wants to create products without having to produce by their own selves.

According to the Directorate General of Tax of the Republic of Indonesia, *maklon* services is

<sup>89</sup> AmorePacific aims to top ASEAN market Posted. Korea Times. 11 Feb 2019. Available at: [http://www.koreatimes.co.kr/www/tech/2017/04/129\\_227225.html](http://www.koreatimes.co.kr/www/tech/2017/04/129_227225.html)

<sup>90</sup> Ibid

described as all services provided in the process of completing certain goods which the process is carried out by the service provider (subcontracted). Furthermore, specifications, raw materials, semi-finished goods, auxiliary materials that will be processed in part or in whole are provided by the service users, and ownership of finished goods is to service users. *Maklon* transactions are carried out by two parties, namely Service Users (goods owners) and Service Providers (subcontractors). In other words, a service provision can be said to be a *maklon* service if it meets following requirements: <sup>91</sup>

- The specifications of the goods are determined by the goods owner / service user;
- Some or all of the goods are provided and owned by service users.

This outsourcing service is normally used by individual or institutions that have a market and customers but do not have a brand and permission to issue large quantities of their products and are marketed to consumers in general. Because in producing cosmetic products in Indonesia, there are several things that must be done, starting from providing production sites or factories, looking for labours or workers, and managing permits or legality so that these products can be widely used by consumers. These requirement are considered a hinder by some smaller business, even there are cases where institutions that make their own products and brands fail in licensing because they have not met the standards set by the government. Therefore, the user of *maklon* services chooses to outsource these services of licensing, making factories and looking for labour to others so they can focus on marketing and distribution of the products.

Some notable companies that provide this service in Indonesia are including, as follows:

No.	Toll Manufacturing Company Name	Website
1.	PT Cosmar	<a href="http://ptcosmar.com/">http://ptcosmar.com/</a>
2.	PT Cedefindo	<a href="http://www.cedefindo.co.id">http://www.cedefindo.co.id</a>
3.	PT Kosmetika Global Indonesia	<a href="https://www.kosme.co.id">https://www.kosme.co.id</a>
4.	PT. Mash Moshem Indonesia	<a href="https://mashmoshem.co.id">https://mashmoshem.co.id</a>
5.	PT Yabeta Indonesia	<a href="http://www.yabetaindonesia.com">http://www.yabetaindonesia.com</a>
6.	PT Adev Natural Indonesia	<a href="https://adevnatural.com">https://adevnatural.com</a>
7.	PT Joya Hougan Lestari	<a href="https://www.joyahougan.com">https://www.joyahougan.com</a>
8.	PT Dion Farma Abadi	<a href="http://www.dionfarmaabadi.com">http://www.dionfarmaabadi.com</a>
9.	PT Fabindo Sejahtera	<a href="http://fabindo.com/en">http://fabindo.com/en</a>

## 2.4. Other Favourite Brands

Besides some major players described earlier, there are also minority but rising market holders who are not among the giant enterprises. National cosmetics industry, which is largely SME (Small-to-Medium Enterprise or in Indonesian *UMKM*) industry, is indeed one of the Indonesian mainstay industries which play an important role as the national economic driver. The development of the cosmetic SMEs industry is a challenge for the government because

<sup>91</sup> Maklon Kosmetik. PT.ADEV Natural Indonesia. 11 Feb 2019. Available at: <https://powerband2.widezone.net/info/pengertian-maklon-kosmetik>

of the limitations and problems faced by SMEs. One of the problems faced is the difficulty of obtaining licenses, both licensing to produce and distribute cosmetics.<sup>92</sup>

Despite the problems, there are brand that strive in the competition and succeed in getting their portion of market share especially in the make-up sector. They are including Make Over, PAC, Polka, Rollover Reaction, BLP, Mizzu, ESQA Cosmetics and Mineral Botanica.

### 3.1.1. Make Over

Many Indonesians are misled to think Make Over is a cosmetic brand from abroad as its name does sound like the MAKE UP FOR EVER, the Paris based brand which is a high-end cosmetics brand owned by LVMH Moët Hennessy Louis Vuitton SE. Though the name is similar, the packaging of the brand differs as the Indonesian brand is simply dominated with black, making it look elegant in different way. The collection includes eyeliner, contour palette, and powder foundation, to blush stick.



Figure 29: Make Over Products Selection

Source: Beautynesia 2017

Make Over is one of the local makeups favoured by some Indonesian women. Besides having good quality, Make Over also has an affordable price. Out of many Make Over products, the most popular products are including the Hydration Serum, Ultra Cover Liquid Matte Foundation, Camouflage Cream Face Concealer, Perfect Cover Two Way Cake and the Eye Liner Pencil Black Jack. All these products are retailed with the price range as low as between IDR 80,000-139,000 or EUR 5-9.<sup>93</sup>

### 3.1.2. PAC

PAC has nothing to do with the makeup brand M.A.C or Make-up Cosmetic Art which was founded in Toronto Canada and headquartered in New York. PAC is truly an Indonesian original brand based in Jakarta, whose name stands for Professional Artist Cosmetics and affiliated with the giant cosmetics company group of Martha Tilaar.

<sup>92</sup> Bimbingan Teknis Bagi Pelaku Usaha Umkm Kosmetika. POM. 30 Aug 2018. Available at: <https://www.pom.go.id/new/view/more/berita/14777/BIMBINGAN-TEKNIS-BAGI-PELAKU-USAHA-UMKM-KOSMETIKA.html>

<sup>93</sup> Biar Enggak Penasaran, Cari Tahu 5 Produk Terbaik dari Make Over Yuk. Beautynesia. 3 Jun 2017. Available at: <http://beautynesia.id/12042>

According to its website, PAC is the first local makeup product designed for professionals with international quality. PAC also fits perfectly with Asian skin, with limitless various choices which gives professional make-up creations more room for imagination. PAC has bold and expressive complete colours which are suitable for edgy, fashionable and adventurous personality.



Figure 30: Advertisement by PAC

Source: Martha Tilaar Shop 2018

### 3.1.3. Polka

The colourful and cheerful packaging with the pop culture theme provided by Indonesian brand Polka gives a message of courage and optimism through its cosmetic products. This international quality cosmetic has found itself globetrotting, with its recent expansion to international shipping namely to the USA, Malaysia and Australia. Online shops and e-commerce are channels the company mainly operates.



Figure 31: Polka Colourful Packaging

Source: Bukalapak 2018

The cosmetics line focuses on lipsticks and provides single products or cute gift sets with colours that pop.

### 3.1.4. Rollover Reaction

As this Indonesian brand name uses English, many thought the products are not from Indonesia at the beginning of its appearance. Starting from the upset of the CEO of Rollover Reaction, Naya Tinada, to get quality cosmetics in Indonesia, finally she and her friends founded a local cosmetic brand that was successful with lip and cheek cream products.



Figure 32: Rollover Reaction's First Store at a Premium Mall Plaza Indonesia

Source: Cosmopolitan Indonesia 2018

The brand which has considerable number of fans are developing is producing other makeup products, such as Halolight, namely stick blush, highlighter and bronzer, 5 liquid eyeshadow, eyebrow mascara, lip and cheek crayons, lip balm, face wipe, face spray and the last, liquid highlighter.

Rollover has also used young Indonesian artist Asmara Abigail and illustrator Talitha Maranila as her muse and in collaboration with instagram beauty influencer accounts such as @thelipstickmafiaaa and @puchh.<sup>94</sup>

### 3.1.5. BLP

Lizzie Parra's name may already be familiar to Indonesian women who love beauty products. Starting her career as a makeup artist, Lizzie is increasingly known as an influencer in the world of beauty and is now the owner of a brand of cosmetic products known as By Lizzie Parra (BLP). Because of its name and marketing approach, BLP is one of the local cosmetic brands that are often mistakenly alleged from abroad.



Figure 33: BLP's Product Selection

Source: Multiple Sources 2018

In addition to successfully spawning BLP Lip Coat consisting of 12 shades, BLP's other products are including the eye shadow pen, eye definer (eyeliner), brow powder and brow definer.

In terms of branding, BLP positioned itself as not-cheap looking product but affordable for all

<sup>94</sup> 21 Brand Kosmetik Lokal yang Sering Disangka dari Luar Negeri! . Buka Review. 14 Dec 2018. Available at: <https://review.bukalapak.com/beauty/12-brand-kosmetik-lokal-yang-sering-disangka-dari-luar-negeri-1452>

people.<sup>95</sup> With the lowest retail price of IDR 99,000 or EUR 6 and the most expensive is IDR 12,000 or EUR 8, the target of the brand is so that 18 years old consumers can afford to buy the products.

### 3.1.6. Goban

Stands for Gorgeous and Beautiful Angels (Goban), the Indonesian brand's collection is interesting and the website is also quite bold and not inferior to global brand cosmetics. Besides having Melted Matte Lip products, Goban also has a flagship illuminating highlighter.



Figure 34: Goban Products

Source: Female Daily 2018

Although it only has 6 colours, Goban Cosmetics Melted Matte Lip tends to choose colours that are 'safe' and must be used. The choices also include all colours, starting from nude, pinkish, purplish, red, to brown.

### 3.1.7. Mizzu

This local makeup label has a fairly complete range of products. Starting from eye products, Mizzu has various types of eyeliner, which are liquid and pencils in various colours. Not to forget, 2 mascara products, 8 types of mini eyeshadow palette, 1 type of large 9 colour palette, 2 types of eyebrow pencil and false lashes.

Then, for lips, Mizzu has 15 choices of liquid lip colour and 5 lip gloss. As for the complexion, Mizzu provides 2 types of foundation, liquid and powder, 2 colour contour and highlighter palette and 5 colour powder blush.

Mizzu also often works with beauty influencers, such as Tasya Farasya, Suhay Salim, Endi Feng, and the last is Rachel Goddard.

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<sup>95</sup> Kisah sukses Lizzie Parra, dari modal minim hingga punya produk kecantikan sendiri. Merdeka. 19 Mar 2018. Available at: <https://www.merdeka.com/uang/kisah-sukses-lizzie-parra-dari-modal-minim-hingga-punya-produk-kecantikan-sendiri.html>



Figure 35: Mizzu Products

Source: Lippielust 2018

Mizzu recently released its new product which is a liquid lipstick dry-to-matte and named it VaLipicious Velvet Matte, this product was released in 2017. With black and pink, the brand carried by PT. Maximus Makmur Mahardika has successfully dominated the online and offline markets in Indonesia. Mizzu products price averaged under IDR 50,000 or EUR 3 except for a number of products including vaLipicious (IDR 79,000 or EUR 5).<sup>96</sup> Mizzu products are also very easy to obtain because Mizzu uses massive marketing channels both online and offline.

### 3.1.8. ESQA Cosmetics

The name, quality and even website of ESQA have been designed in the same class as international cosmetic brands. Initiated by two Indonesians friends, Cindy and Kezia, who want to contribute to the world of Indonesian beauty by creating local beauty products with exclusive packaging and friendly ingredients and soft on the skin.



Figure 36: ESQA Makeup Products

Source: Lippielust 2017

<sup>96</sup> Mizzu Cosmetics Valipicious Velvet Matte Swatches & Review – New Shades Alert. Lippielust. 14 Jul 2017. Available at: <https://lippielust.com/2016/11/07/mizzu-cosmetics-valipicious-velvet-matte/>

ESQA markets 9 types of matte lip liquid, 4 satin lip crayons and 1 matte lip liquid exclusively. In addition to lipstick, ESQA also has cheek palette products, also eyeliner and eyebrow pencil. Finally, ESQA recently released a collection with BCL consisting of 1 collection of lip gloss and 1 collection of matte lip liquid, each of which consists of 3 attractive colours of Rose gold.

This brand focuses on flattering warm hues of rose gold, which are perfect for every skin type. Created by best friends Cindy and Kezia, the brand aims to bring the glamour and chic to Indonesian cosmetics. Although it is better known for its matte lip products, some of the fans also appreciate their cheek palette products.

### 3.1.9. Mineral Botanica

Thanks to the brand's name and packaging, Mineral Botanica looks and sounds like a cosmetic product which is coming from outside of Indonesia. Nevertheless, Mineral Botanica is indeed a local brand, but historically was developed in Los Angeles, United States. Now the brand has managed to compete in the international market.



Figure 37: Mineral Botanica Products

Source: Sociolla 2018

Along with public awareness of the importance of environmental sustainability and the use of organic safe materials, Mineral Botanica has succeeded in becoming an affordable makeup and skincare producer that is not only safe to use, but also provides benefits to its users.

This brand has been hailed for its purely natural origin of the ingredients. It is free from preservatives and chemicals and relies on natural essential oils and extracts to achieve its super hydrating effects. Indonesia is stepping up their lipstick game with this brand also creating some awesome lip creams. Mineral Botanica is made in Indonesia but has a sister company in Los Angeles called Mineral Botanica Cosmetics.

Mineral Botanica has also recently released various skin care series, and one of them is the Brightening Skin Care Series. As the name suggests, this series of products is specifically intended to brighten and protect skin face from UV light. Products released by Mineral Botanica are well-known for their natural ingredients so they are safe to use. This product is effectively effective in cleaning excess dirt and oil on the face, while maintaining moist skin and making it soft and smooth.<sup>97</sup>

<sup>97</sup> Ini Dia Skincare Set dari Mineral Botanica Untuk Cerahkan Wajah Kusammu. Beautynesia. 7 Dec 2016. Available at: <http://beautynesia.id/9518>

### III. BUSINESS OPPORTUNITY AND CHALLENGE

#### 4.1. Huge and Growing Domestic Market

Indonesia offers a huge opportunity including in the cosmetics industry given its vast domestic market, the availability of qualified human resources as well as the immense potential of local raw herbal ingredients. Indonesia is undeniably unique also in a sense that there is growing trend among its people to use natural products. This has become an opportunity for the emergence of natural-based cosmetic products such as spa products from Bali and other regions in the country or beyond country borders.

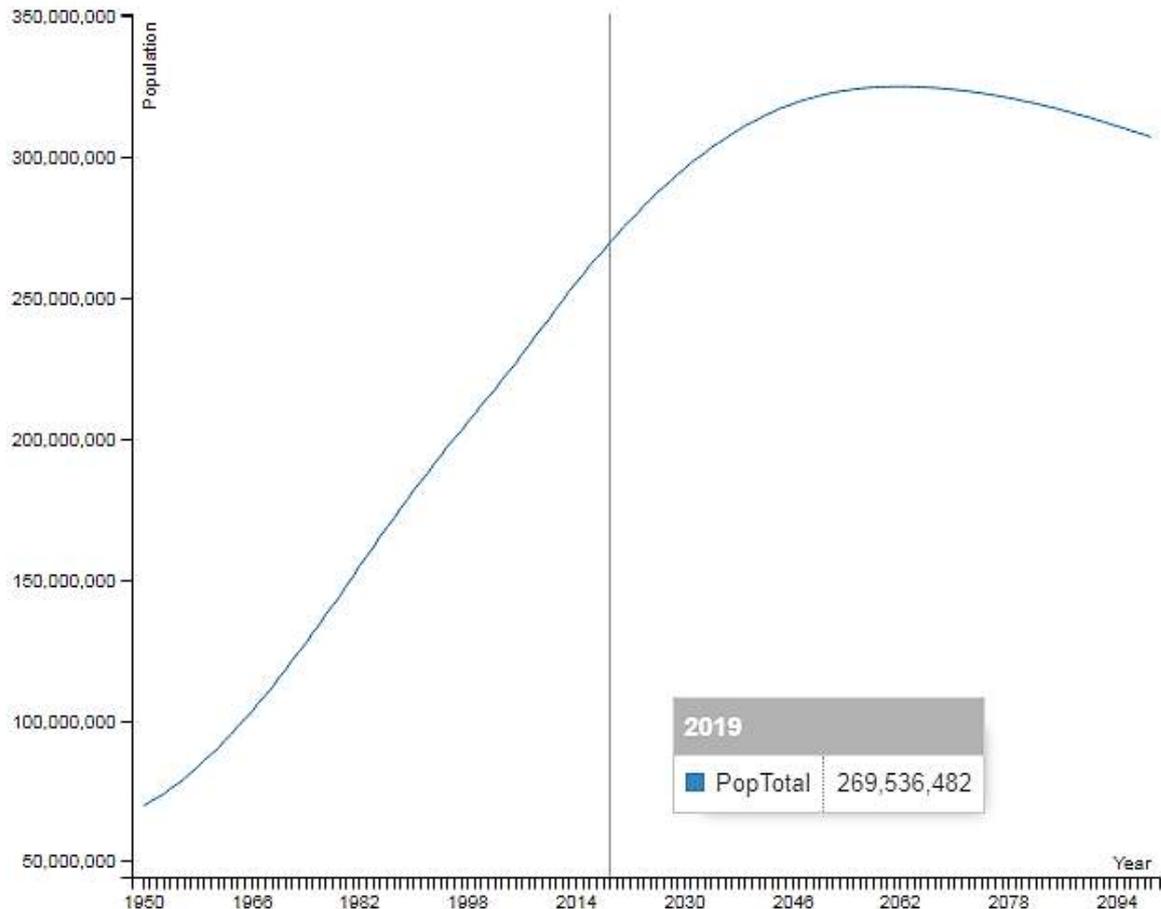


Figure 38: Population Data via United Nations WPP (2015 Revision, Medium Variant)

Source: World Population Review 2019

Generally speaking, being the only ASEAN country part of the G20, Indonesia has been experiencing a fast economic growth for the past few years, reaching 5.1% in 2017, and is likely to keep attracting more and more people, especially for business. The opportunities keep mounting as its population does, which has now reached more than 260 million, making it the 4<sup>th</sup> most populated country in the world. Furthermore, the educational progress has been made and the social gap has been therefore reduced. These lead Indonesia being the key access gate to a wide educated market as well as qualified local talent pool.<sup>98</sup>

<sup>98</sup> Indonesia: Growing Market, Growing Opportunities. Lincoln Group. 12 Feb 2019. Available

The Indonesian population is very young. As the median age is twenty-eight years old, half of the population is still below thirty. Most of them are spread among the main Indonesian cities located in Java and Sumatra, regrouping altogether 80% of the population. Big urban groups exist in Jakarta (10 million people) and Bandung (2.5 million people) offer promising markets in Retail, Luxury, E-commerce as well as Fintech and IT with the Digital Transformation. Indeed, with more than eighty universities, Bandung seems to be the cradles of young population, especially those who are aware of IT sector with the students such as from the national favourite Institut Teknologi Bandung reside in the city.

However, other big cities are emerging throughout the archipelago. Provincial capitals such as Surabaya (2.8 million people), Medan and Bekasi (both 2.5 million people), Tangerang and Semarang (both 2.1 million), Depok (1.8 million people) and Palembang (1.5 million)<sup>99</sup> consist of big market population and have many resources to provide many industries including retail, agriculture and tourism industries.

## 4.2. Competitive Cost of Manufacture

According to Deloitte's 2016 Global Manufacturing Competitiveness Index, the Manufacturing labour costs in Indonesia are less than one-fifth of those in China.<sup>100</sup> As China's labour costs have seen the steepest rise in Asia over the past 10 years, Indonesia's costs have remained relatively flat, drawing the attention of those manufacturers looking for a stable low-cost alternative.

The island nation's overall 10-year growth in productivity (50%) exceeds that of ASEAN fellows Thailand, Malaysia, and Vietnam, but pales in comparison to China's growth over the same period. Still, its manufacturing GDP represents a significant portion of its overall GDP and with such a strong manufacturing focus, and cosmetics industry is indeed the focus, coupled with the sheer size of its population; Indonesia remains high on the list of alternatives for manufacturers looking to shift production capacity away from China in the future.<sup>101</sup>

Indonesia nationwide minimum labour salary is within range as low as IDR 1.45 million to IDR 3.91 million.<sup>102</sup> In contrast to a number of ASEAN countries which revise the wage standard at least once every five years, Indonesia changes it every year based on indicators of economic growth and inflation. Standard labour minimum wages in Indonesia have extreme variations based on location. The industrial regencies of Bekasi and Karawang in West Java for example are the highest minimum pay regions with IDR 3.91 million or EUR 246, followed by the Capital Province Jakarta with IDR 3.65 million or around EUR 230 per month. While Yogyakarta became a province with the lowest minimum wage of IDR 1.45 million or only EUR 91 per month.<sup>103</sup> Some of the biggest factories or manufacturers in Indonesia are indeed located at Jakarta, West Java Province (i.e. Bogor, Tangerang, Bekasi), East Java (i.e.

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at: <https://lincoln-group.com/indonesia-growing-market-growing-opportunities/>

<sup>99</sup> Indonesia Population 2019. World Population Review. 12 Feb 2019. Available at: <http://worldpopulationreview.com/countries/indonesia-population/>

<sup>100</sup> 2016 Global Manufacturing Competitiveness Index. Deloitte. 11 Feb 2019. Available at: <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/manufacturing/us-gmci.pdf>

<sup>101</sup> Ibid

<sup>102</sup> Ini Perbandingan Gaji Buruh di Indonesia dengan Negara-Negara ASEAN . iNews. 1 May 2018. Available at: <https://www.inews.id/finance/read/109029/ini-perbandingan-gaji-buruh-di-indonesia-dengan-negara-negara-asean>

<sup>103</sup> Ibid

Surabaya, Sidoarjo) and South Sulawesi (i.e. Makassar).



Figure 39: Indonesia in Global Manufacturing Competitiveness Index

Source: Deloitte 2019

### 4.3. Fondness over International Brand but Strong Preference over Made-in-Indonesia Products

Indonesian consumers prefer buying foreign-made cosmetic products rather than local products. A research conducted by Nielsen, based on data on beauty product sales in the third quarter of 2015, shows that 48% of the respondent consumers like global brand cosmetics, 36% choose local products while the remaining 16% do not have any preferences.<sup>104</sup>

The demand for imported Indonesian cosmetics continues to increase along with the growth in the need for affordable premium cosmetic brands from middle-class consumers in Indonesia.<sup>105</sup> To face competition with imported products, the government through the Ministry of Industry provides incentives for domestic made cosmetics company, which among others are given in the form of tax allowances and exemptions from import duty on machinery imports.

The rise of cosmetic reviews over international brand in the internet greatly influenced and encouraged Indonesian consumers especially the millennials group to hunt for the popular cosmetic fashions. Typical Indonesians also will promote to their friends and families hence

<sup>104</sup> Konsumen Indonesia Lebih Suka Merek Kosmetik Global. Kata Data. 17 Nov 2016. Available at: <https://databoks.katadata.co.id/datapublish/2016/11/17/konsumen-indonesia-lebih-suka-merek-kosmetik-global#>

<sup>105</sup> Ibid

creating the chain effect, be it for good or bad review. Millennials also tend to seek for makeups rather than skincare products because they are considered safer to experiment. This is also driven by the Millennials behaviour in general who like new challenges including towards uncommon or anti-mainstream makeup. As for the price range of cosmetic targeted by millennials, it is not limited to certain brands because they prioritize quality.<sup>106</sup>

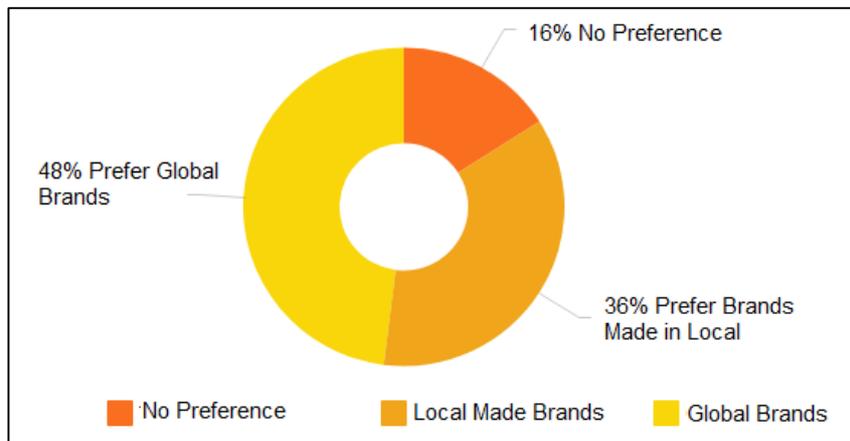


Figure 40: Brand Origin Preference of Cosmetics Consumers in Indonesia

Source: Katadata 2016

The raid by international cosmetic brands to Indonesia market does not make all consumers avid to wear them entirely. Some locally produced cosmetics actually rise and are favoured by the millennial generation of women. This was conveyed by Lizzie Parra, as Beauty Influencer and CEO and Founder of Cosmetics BLP. Lizzie said that most of the consumers of her brand are women aged 18 to 35 years.<sup>107</sup> For that, she presents her cosmetic products as if it is a global brand although it is now only reaching domestic young people to adult women market. Prestige is the keyword. For most Indonesians, using expensive foreign products shows social class and prestige that make them proud.



Figure 41: Lizzie Parra the Founder of Local Made Cosmetics Brand BLP

<sup>106</sup> Milenial Cenderung Impulsif Belanja Kosmetik. CNBC Indonesia. 2 Apr 2018. Available at: <https://www.cnbcindonesia.com/lifestyle/20180402180923-33-9409/milenial-cenderung-impulsif-belanja-kosmetik>

<sup>107</sup> Milenial Ternyata Lebih Suka Kosmetik Keluaran Lokal. Suara. 23 Feb 2018. Available at: <https://www.suara.com/lifestyle/2018/02/23/203000/milenial-ternyata-lebih-suka-kosmetik-keluaran-lokal>

## 4.4. Challenge

### 4.4.1. Illegal and Halal Products

Despite various monumental efforts to minimize illegal cosmetic products in the country, Indonesia National Agency of Drug and Food Control (Indonesian: *B POM*) still found these products to be present in the domestic market. One of the legal excuses used by importers to import counterfeit and illegal cosmetic products is the Regulation of Head of *B POM* No. 13 Year 2015 which exempts imported cosmetic products from compulsory verification. Therefore it is recommended for business players to ensure the products sold in Indonesia are legal by following all the country regulations.

On a side note, to be successful in many Asian markets, cosmetics companies be it producers, exporters, importers or distributors also need to be sensitive to local trends and competition. For example, Indonesia, representing the largest Muslim population in the world, passed a regulation in 2015 that by 2020 all cosmetics products will have to be labelled as Halal.

The Law on Halal Product Assurance (Halal Law) was introduced back in 2014. However, the government has still not issued any implementing regulations. Nevertheless, based on a circulated draft, the upcoming government regulation clearly stipulates that halal certification will become mandatory for cosmetics products within the year following the introduction of such certification within the food-and-beverage sector. As with pharmaceutical products, this new legal framework will have a significant impact on cosmetics products.

### 4.4.2. Other Technical Constraints

#### 4.4.2.1. *Infrastructure Readiness for Verification*

Around 90% of the raw materials used in cosmetics distributed in Indonesia are still imported.<sup>108</sup> This leads to uncertainty in verify the halal-ness of the product. In the future, there will be considerable complexity involved in the verification of raw materials under the new framework of local content regulation. This complexity will also become an issue when auditors need to certify production facilities across several locations and/or countries, as no halal certification recognition scheme is currently available. Enforcement of this provision then will undoubtedly prove to be a significant challenge both for government and business players and will require a large number of resources.

Business players must ensure they comply with the reference lists of cosmetics ingredient. Currently, there is no such positive/negative halal list for cosmetics ingredients. Therefore, additional time will be needed in order to verify ingredients.

#### 4.4.2.2. *International Standards and Certification Bodies*

Currently there is no international agreement on halal standards, halal guarantee systems, and the acknowledgement of finished halal products or such. Therefore, a product which is labelled either halal or non-halal in one country cannot be instantly recognized as such in another country. This could become an additional barrier to trade. Furthermore, worldwide halal-certification institutions are at the moment mostly focused on food and beverages. It is

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<sup>108</sup> Menperin: 90% Bahan Baku Komestik Masih Impor. *Warta Ekonomi*. 2 Jun 2016. Available at: <https://www.wartaekonomi.co.id/read102151/menperin-90-bahan-baku-komestik-masih-impor.html>

also likely that a number of countries lack a halal-certification institution capable of cooperating with Indonesia's certification institution in order to reach mutual agreements on halal certification, especially in terms of non-food-and beverage products.

#### 4.4.2.3. *Quick Cosmetics Product Cycles*

Cosmetics products are a highly dynamic area in terms of development and are generally characterized by rapidly changing market trends. This means that product cycles are short and the industry thus needs to be able to adapt to rapid change. As the certification process, in all of its various complexities, will require significant amounts of time, the mandatory halal certification of these products will surely need to be reconsidered. Halal certification for cosmetics product would be a better fit as a product claim for those who wish to sell halal cosmetics and who are looking to target this particular market than it would as a mandatory requirement.

Such information is understandably important to Indonesian consumers and may have an impact on their purchasing decisions. However, flexibility in terms of mandatory or voluntary halal certification will be vital for cosmetics companies. Furthermore, most cosmetics products are inconsumable; therefore mandatory halal certification for these categories of products should not be considered a necessity. The enforcement of this regulation could adversely affect foreign investment decisions as regards the Indonesian market. Moreover, this regulation could also push existing investors to rethink their investments in Indonesia. Such an outcome would not be in line with the CEPA objective of increasing trade and investment across both markets.

#### 4.4.2.4. *Human Resources*

Cosmetics industry is bound to grow in the near future align with Indonesia's population growth.<sup>109</sup> As a result, companies will need to manage their Human Capital efficiently, starting with their Talent Acquisition and Talent Development. Aside from the reputation of the group, recruiting the best candidates requires to be fast-paced, flexible and creative in the processes. Though Talents are not constantly on a lookout, they will tend to move when they get a better offer with better development perspectives. Therefore recruitment starts with an accurate assessment of the skills of the candidates, not only pertaining to their CV but also of their soft-skills to see if their values match the company. Then there must be many discussions and empathy regarding the candidates' aspirations in order to open career and development prospects that will enable them to project themselves in the company on the long-term.

However, as this talent pool remains very young, companies face another challenge: there is a huge shortage of talents in middle to top management positions, needed to be filled with seasoned professionals who have higher level of expertise in some very specific areas. These ones are not digital natives, less connected and most of the time under the radar.

Companies will need to attract new talents, but not only. They will need to train, develop and retain the existing ones as well. As more and more opportunities will be introduced to these very connected and agile local talents, a real strategy of Talent Development needs to be put in place. Firms need to develop career growth plans for their employees, and incorporate them

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<sup>109</sup> Indonesia: Growing Market, Growing Opportunities. Lincoln Group. 12 Feb 2019. Available at: <https://lincoln-group.com/indonesia-growing-market-growing-opportunities/>

into their strategy, as Talent centric organizations.

## IV. REGULATIONS AND STANDARDS

### 4.1. Product Registration Process

The process of cosmetic product registration in Indonesia is regulated by the National Agency for Drug and Food Control, also called by BPOM which is under Indonesian Ministry of Health. The regulations for cosmetic products are also issued by BPOM, there are:

- Number 18 Year 2015: technical requirements for cosmetic materials.
- Number 19 Year 2015: technical requirements for cosmetic.
- Number 1 year 2016: technical guidelines for control of cosmetic advertising, and
- Number 11 year 2016: application guidelines for hygiene sanitation and documentation in cosmetic industry group.<sup>110</sup>

To be able to proceed with product registration in Indonesia ones must have company registered in the country. Otherwise a local distributor agent shall be chosen as a partner who will register the products under their own Indonesian company. To choose a correct local partner is indeed a key success factor if foreign companies don't prefer to register a company by their own.

These requirements may look simple but in fact can be very tricky since according to the Indonesian regulation someone can only register product(s) in Indonesia just under one company. It means that this company will receive, after registration, an automatic exclusivity on the products even there is no exclusive agreement signed. Since this company holds the product license (usually for 3 years), there is no one can make any pre-registration on another distributor unless with the company's approval.

There are no restrictions on importing cosmetic products to Indonesia. However, imported cosmetics must be registered at the BPOM. Registration of imported cosmetics can be done only by local agents or distributors that have authorization from overseas manufacturers. Import duties for cosmetic products are 15%. In addition, a value-added tax (VAT) of 10% is imposed on all imported cosmetic products. BPOM has taken tough measures on registration of imported cosmetics. The current registration process is not the quickest in the world, with results delay should be expected. This might impact the number of newly imported cosmetic products in the long run, as distributors may focus more on existing products in the Indonesian market.<sup>111</sup>

BPOM regulates and controls all of the registration, distribution and quality of cosmetics. Imports of cosmetics must comply with Indonesian law. Sales of cosmetics products are regulated through the Directives to Register Cosmetics stated in the "Stipulation on Registration Implementation" and through the Decision of BPOM No. HK 00.05.4.1745, dated May 5, 2003.<sup>112</sup>

Manufacturers or importers must register all cosmetics whether locally produced or imported with BPOM. Likewise, the manufacturer or importer must fulfil the criteria for registered personal care and cosmetic regarding the safety, quality, packaging, and labelling of the products. Labelling must contain honest and complete information that is not misleading and

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<sup>110</sup> Process for Cosmetic Product Registration in Indonesia. Cekindo. 23 Jun 2015. Available at: <https://www.cekindo.com/blog/process-for-cosmetic-product-registration-in-indonesia>

<sup>111</sup> Ibid

<sup>112</sup> Ibid

must not contain unwarranted claims. Products should be of good quality, use proper manufacturing methods, and use only safe materials outlined by BPOM.

To register, cosmetic importers must submit an application form to BPOM which includes the following documents:<sup>113</sup>

1. Authorization Letter (LoA)

The document is published by the manufacturer, signed by director with company letter head and stamp of the company, authenticated by Authorized Government Office and respective Indonesia embassy, legalized by public notary, with 'minimum 3 years validation date'.

2. Certificate of Free Sale (CFS)

This document is issued by the authorities or a recognized institution in the country of origin, legalized by the Embassy/Consulate General of the Republic of Indonesia and public notary. CFS must list all products that the Indonesian importer intends to register.

3. Good Manufacturing Practice (GMP) Certificate

A statement by the manufacturer or company that the product was manufactured according ASEAN GMP Guidelines or any ACC approved equivalent GMP Guidelines. Excluding of ASEAN member countries origin, GMP must be issued by the authorities or a recognized institution in the country of origin and legalized by the Embassy/Consulate General of the Republic of Indonesia and public notary.

4. Hygiene License

Certificate must be issued by the National Agency for Drug and Food Control (BPOM) and legalized by a public notary in Indonesia.

5. Qualitative and Quantitative Formula of the Product

This descriptive document shall be issued by the manufacturer/principle, signed by Technical Manager with Company Letterhead and Stamp of the Company. It also must list of all ingredients used in the products in qualitative as well as in quantitative with the total percentage of ingredients equalling 100%. The name of ingredients should be written in its universal generic name or universal specific name or in International Nomenclature Cosmetic Ingredients (INCI) with the detailed CAS Number. It also shall specify the functions of each raw material / ingredient and as for fragrance, ingredient should detail the name, name & address of supplier, have the fragrance code based on International Fragrance Association (IFRA).

## 4.2. Halal Law and Certification

The Government of Indonesia has enacted the Halal Product Assurance Law No. 33 of 2014 ("Halal Law") since October 17, 2014. According to this law, the government is required to issue the implementing regulations within two years and effectively implement the law within five years after it was enacted. This means that by 17 Oct 2019,<sup>114</sup> halal labelling will officially be a mandatory for all products circulated in Indonesia. The government is now in the final

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<sup>113</sup> Ibid

<sup>114</sup> Ibid

stage of preparation for implementing this law.

Companies looking to tap into Indonesia's cosmetics industry are strongly advised to fully comprehend the need to satisfy the Halal certification requirements. Considering that 88% of the Indonesian population is Muslim and the Indonesian Islamic Council (MUI) prefers all food products and cosmetics to have accredited. Halal is an Arabic word meaning lawful or permitted. The opposite of halal is haram, which means unlawful or prohibited. Halal and haram are universal terms that apply to all facets of life.

All cosmetics products can be certified halal except the following, which are haram: a) Swine/pork and its by-products; b) Animals improperly slaughtered or dead before processing; c) Animals killed in the name of anyone other than Allah (God); d) Alcohol and intoxicants; e) Carnivorous animals, birds of prey and land animals without external ears; f) Blood and blood by-products; g) Foods contaminated with any of the above products.

Indeed, Indonesia's cosmetics sector strong performance in recent years is also in line with the country's growing middle class and increasingly affluent Muslim consumers who are halal conscious in their purchases. According to a survey, 58% of women in Indonesia now prefer to use halal cosmetics. They place a greater emphasis on halal certification over price, packaging, organic ingredients and other trends.

Not only for cosmetics, the Halal Law also requires mandatory halal certification and labelling for food, beverages, drugs, chemical products, biological products, genetically engineered products, as well as consumer goods that are distributed or traded in Indonesia. The Halal certification is an important provision implemented by the Government of Indonesia to provide convenience, security, safety, as well as certainty for Indonesian customers; and to add more value to goods produced and sold in Indonesia. However, the wide scope and complexity of the Halal Law are of particular concern to various stakeholders, including businesses, sectorial associations and international chambers of commerce and industry (Indonesian: *KADIN*).

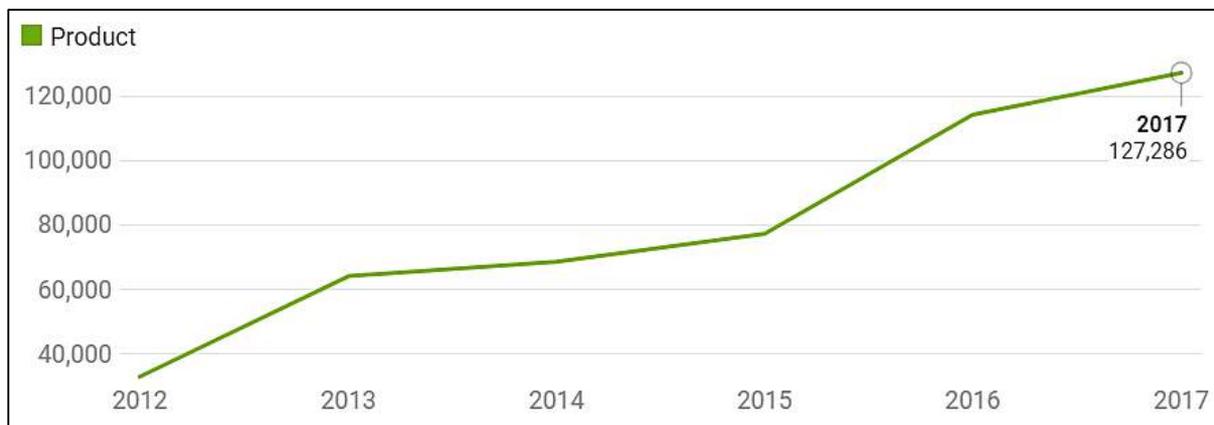


Figure 42: Number of Products Certified as Halal by Indonesian Ulema Council (MUI)

Source: The Indonesia Ulema Council (MUI) 2018

Indonesia's halal awareness and precaution boom and this lead to the number of products with the halal label have increased every year. The number of halal certified products in 2017 was 127,286, rising from 32,890 in 2012.<sup>115</sup>

<sup>115</sup> Non-food products tap into huge Muslim market in halal boom. Jakarta Post. 28 May 2018. Available at: <https://www.thejakartapost.com/news/2018/05/27/non-food-products-tap-into->

Regarding products with foreign halal certificate, Article 47 of the Halal Law shows that halal-certified products and materials that come from overseas will only have to be registered at National Body of Halal Assurance (Indonesian: *BPJPH*) and later sold and distributed in Indonesia as without any change in their halal registration status. However, not all foreign certificates will be allowed to go through this convenient process and those certification institutions that are not on the list will have to be assessed by BPJPH.



Figure 43: Global Halal Centre Building of LPPOM MUI in Jakarta

Source: Commission for the Study of Medicine and Cosmetics of the Indonesian Ulema Council (LPPOM MUI) Official Website 2019

Since the implementation of halal regulations in 2014, certain cosmetics brand like Wardah started to dominate cosmetic sales in the country and continue to do so ever since. As the country's first halal cosmetic manufacturer, Wardah has successfully capitalised on the new trend and has become a leading cosmetics brand in Indonesia. The market share of Wardah continues to rise and in 2015 held 16% to make it the second largest domestic cosmetic manufacturer after Martha Tilaar. Since then, Wardah has consistently recorded 20%-50% annual sales increase, which is disproportionately higher than that of other manufacturers at around 10%. The company's monthly sales value in 2014 reached IDR 200 billion, significantly above its two largest local competitors, Martha Tilaar and Mustika Ratu, which recorded an annual sales value of around 400 - 600 billion IDR. Wardah's growing dominance in the

<http://www.eibn.org/2019/01/huge-muslim-market-in-halal-boom-1527421126.html>

domestic cosmetic market can also be seen from the increase in the number of its products which received top brand awards from one in 2014 to ten in 2015.

The success of Wardah brand has attracted its competitors to follow in its footsteps. Zoya, a prominent hijab producer in the country, recently introduced its halal-certified cosmetic line. Martha Tilaar, L'Oréal and Unilever have also obtained halal certification for many of their products in order to tap into this growing market segment.<sup>116</sup>

### 4.3. Certificate of Product Analysis (CoA)

There is an additional requirement for imported cosmetics which is to provide Certificates of Product Analysis (CoA). This includes heavy-metal test results such as for mercury, lead, arsenic, and cadmium.

In 2016, the BPOM issued a circular letter that required Certificates of Product Analysis (CoA) for imported cosmetic products to include heavy-metal test results (specifically results relating to mercury and lead). The results of any heavy-metal testing encompassed by CoA were to remain valid for six-month periods, which was later amended to twelve months, before being amended once again to a one-time submission (for first shipments only).

Under the BPOM Regulation No.HK.03.1.23.12.10.11983 of 2010, a Certificate of Good Cosmetics Manufacturing Practices (Indonesian: *Cara Pembuatan Kosmetik Yang Baik/CPKB*) is required for all cosmetic products which are imported from Non-ASEAN countries. This certificate must be signed by a competent official or an authorized institution in the country of origin, and should also be authenticated by the Embassy or Consulate General of the Republic of Indonesia in the relevant country. The CPKB acts as a warranty by affirming that the products in question have met the mandated safety, efficacy and quality requirements. It also serves as a screening tool (for post-market surveillance) through which regulators can review manufacturers' qualifications prior to the relevant products being marketed within Indonesia.

Although heavy-metal contamination is an evitable trace element based on Head of BPOM Regulation No. 17/2014 (which was an amendment to the abovementioned regulation), this testing procedure is not routine procedure across the cosmetics industry. As a part of the CPKB, cosmetics manufacturers have already taken the necessary precautions to minimize contamination by applying strict supervision to manufacturing processes and product storage.

It is worth noting here that this requirement is implemented differently for local and imported products. In terms of local products, the implementation of such testing is required in order to complete the relevant data on the Product Information Document (Indonesian: *Dokumen Informasi Produk/DIP*) and should either be undertaken at least once or can be proven by other supporting documents which address the relevant raw materials.

However, in terms of imported products, the obligation to undertake heavy-metal testing applies to all first shipments. If the regulation is applied, it will ultimately lead to various challenges, such as long processing times while the BPOM checks both warehouses and laboratory test results provided by accredited laboratories. In addition, heavy-metal testing will also add a significant cost burden for companies, which will have to pay considerable sums of money to third parties in order to undertake such testing. This, in turn, will lead to higher product prices for consumers. Due to the complexity of this process, the company may also

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<sup>116</sup> Ibid

have to delay their product-launching schedules, which will indirectly lead to Indonesia falling one step behind other countries in terms of the latest cosmetics trends.

#### **4.4. Import Provisions for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service**

On December 2015, the Ministry of Trade issued Regulation No. 118/2015 on Import Provisions for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service (MoT Regulation No. 118/2015). This rule sets out a number of strict requirements which should be met by producers or holders of API-P who are looking to import manufactured goods which are to be traded or transferred to third parties as complementary goods, which are to be used for the purpose of market testing, or which are to be used for the purpose of after-sales service.

Furthermore, in order to ensure the smooth implementation of this regulation, the government then issued Guidelines for the Granting of Import Recommendations, as regulated under Ministry of Industry (Mol) Regulation No. 19/2016 on Provisions for the Granting of Import Recommendations for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service; and as also regulated under Ministry of Health (MoH) Regulation No. 14/2016 on Recommendations for the Acquiring of Import Approvals for Complementary Goods, Goods for Market-Testing and Goods for After-Sales Service.

Under the Mol regulation, an import approval can only be acquired from the Minister of Trade after an import recommendation from the supervising Directorate General has first been secured. Meanwhile, under the MoH regulation, import recommendations must be obtained from the National Agency of Drug and Food Control (BPOM).

On December 2016, the BPOM issued Head of BPOM Regulation No. 27/2016 on Guidelines and Procedures for the Granting of Import Approval Recommendations for Medicines, Traditional Medicines Cosmetics and Health Supplements as Complementary Goods, which has been effective since 29 January 2017.

This regulation stipulates that a company can only import complementary goods if certain criteria are met. For example, the goods cannot be produced in Indonesia by the applicant and there must be no production facilities located in Indonesia which are engaged in the manufacture the complementary goods (Article 3/1.a). However, this obligation to submit information which relates to the availability of production facilities is not in line with MoT Regulation No. 118/2015, which does not set any limitations for cosmetics products. Moreover, Mol Regulation No. 19/2016 stipulates import quotas of up to a maximum of 10% per year of any given two-year average production realization.

The main reasons for companies engaging in the import of products are usually based on a company's headquarters deciding to divide the relevant company's production line across several countries in order to maintain the standard quality of their products. This is in line with the standard global supply-chain policy of increasing the efficiency of production processes in order to produce high-quality products at affordable prices.

Non-aligned policies such as this may hamper business operations and may make companies reluctant to invest in the country. Investment is a vital component of modern economies and is considered key to the forthcoming CEPA negotiation. The CEPA negotiations is thus set to play a vital role in promoting two-way trade and investment that will allow both the EU and Indonesia to achieve their full potentials.



## 4.5. Prohibition Plan of Hair Dye Products Ingredients

On September 2016, the BPOM issued circular letter that listed eight hair dye ingredients which are permitted for use by the cosmetics industry, as well as 29 hair dye ingredients which are prohibited for use by the cosmetics industry. However, the 29 listed hair dye ingredients which have now been prohibited are currently permitted under the framework of the ASEAN Cosmetics Directive (ACD).

Despite the fact that the BPOM claims to use the same reference as ASEAN (specifically the European Union Cosmetics Directives), it is likely that, in practice, the BPOM uses different assessment criteria. Thus, the assessment of various scientific data has resulted in the prohibition of these ingredients, in stark contrast with other countries, both within ASEAN and beyond.

Hair colouring is one of the services that dominate Indonesia's beauty salon industry. Indeed, Indonesia's hair care industry reached an approximate market value of IDR 11.2 trillion and also posted growth of 2.8% in 2015. Hair colouring as a salon service is currently enjoying 6.4% growth and accounts for almost 19% of the total gross income being generated by beauty salon industries.

## 4.6. Negative List of Investment and Tax

On 18 May 2016, the Indonesian Government issued the new Indonesian Negative Investment List (the 2016 Negative List) pursuant to Presidential Regulation No. 44 of 2016.

The issuance of the 2016 Negative List has been anticipated since the Government released the tenth instalment of its economic stimulus programme.<sup>117</sup> This seeks to streamline investment and business licence procedures, as part of the Government's effort to boost foreign direct investment and liberalize the Indonesian economy.

Based on this new list, the Trading sector in Indonesia is now permitted up to 100% of foreign ownership where this was previously not possible or specifically regulated. According to the Indonesian Coordinating Ministry for the Economy, these business fields have been opened for investment on the basis that they either already face sufficient domestic competition or require advanced technology and/or greater funding. However, in some instances, this is subject to certain conditions or restrictions.

Specifically for cosmetics store which is considered as a Cosmetic Retail Business with the Standard Classification of Business Fields (Indonesian: *Klasifikasi Baku Lapangan Usaha Indonesia* or KBLI) No. 4772. This type of trading business is restricted to only 100% domestic capital ownership.

This group includes also retail business specifically for cosmetic products, such as makeup (eye shadow, mascara, face cream, lipstick, lip liners); perfumery (cologne, toilet water, perfume), hair care (shampoo, hair tonic, hair oil); nail care (base layer, nail polish, nail cream, cuticle remover); skin care (baby oil, cleansing lotion, mask, foot cream); body hygiene (spray deodorant, cream deodorant, douches); shaving (shaving soap and cream); traditional cosmetics (powder, *mangir*, *lulur*); body powder, beauty cotton and baby powder.

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<sup>117</sup> Indonesia Update - New Negative Investment List 2016. Link Laters – Widyawan and Partners. 15 Jun 2016. Available at: [http://images.agri-profocus.nl/upload/Linklaters\\_Widyawan\\_and\\_Partners\\_New\\_Neg\\_Invest\\_List\\_20161473240275.pdf](http://images.agri-profocus.nl/upload/Linklaters_Widyawan_and_Partners_New_Neg_Invest_List_20161473240275.pdf)

Even though a retail store which designated to only sell cosmetics does not allow foreign capital to participate, there are other business fields which are open for foreign ownership. They are including Retail Trade of Cosmetics Products via Internet and Mail Post (allows 100% foreign capital with partnership with MSMEs), Distributor's Business not Affiliated to Production (allows 67% foreign capital) and Distributor's Business Affiliated to Production (allows 100% foreign capital). The summary of this Negative Investment list can be seen in the table below:

**Table 1: Indonesia 2016 Negative Investment List Related to Cosmetics Industry**

FOREIGN OWNERSHIP CAP (%)		
Line of business	KBLI Code	2016 Negative List
Cosmetics retail business	47725	Domestic capital must be 100%.
Retail trade of including cosmetics products via internet and mail post	47911	100% open to foreign investment, but requires partnerships and cooperation with MSMEs (Micro, Small and Medium Enterprises).
Distributor's business not affiliated to production and warehousing	00000	Foreign capital ownership: Max. 67%
Distributor's business affiliated to production	00000	Foreign capital ownership: Max. 100%

**Source: Presidential Regulation of the Republic of Indonesia No.44 2016**

As for the tax, imported cosmetic beauty items are included in one type of commodity that receives an increase in the import income tax (Indonesian: *PPh*) or article 22 income taxes implemented since September 2018.<sup>118</sup> According to this new regulation, the tax for those cosmetics which are brought in from across the border is changed from 2.5% to 10%. Of course this rule is a breath of fresh air for local producers of cosmetics. The new regulation will have a positive impact on cosmetic issuers, because it will reduce domestic market competition. There is also potentially increasing demand for local products which have been covered by the arrival of imported products.

<sup>118</sup> Ada peluang ekspansi pasar, saham kosmetik belum tentu cantik. Kontan. 9 Sep 2018. Available at: <https://investasi.kontan.co.id/news/ada-peluang-ekspansi-pasar-saham-kosmetik-belum-tentu-cantik>

## V. CONCLUSION

Indonesia's cosmetic industry remains attractive for foreign and domestic investors. With its population is expected to reach 270 million in 2020, the prospects for the cosmetic industry in Southeast Asia's largest economy is still very bright for the coming years. The reasons, among others, are Indonesians are becoming more and more aware of their well-being as well as cosmetics are increasingly becoming part of Indonesians lifestyles. The Ministry of Industry forecasts that the value of the Indonesian cosmetic industry will soon reach IDR 100 trillion from the number recorded in 2017 was IDR 46.4 trillion.

The biggest consumer of cosmetic products in Indonesia is the people who live in big cities, but the rural people also have showed higher enthusiasm in cosmetic products. Indonesia has a big population that is seeing its per capita GDP rising, thus there is a rising number of mid-income and affluent consumers. Seeing the potential of the domestic cosmetic industry the Indonesian government placed this industry among its priority industries in its National Development Plan for Industry up to 2019. Hence, cosmetics have been given an important role in the economic development of Indonesia. This involves the development of import-substitution industrialization (currently most raw materials for the cosmetic sector still need to be imported), with goals to generate plenty of employment opportunities for local workers. Foreign and domestic capitals are encouraged greatly in this sector.

For its vast population with relatively good purchasing power, Indonesia has been one of the most targeted countries for export. Recent studies show that in the next decade, Indonesia is expected to be in the top 5 or even 3 of the greatest market in Asia-Pacific region. Not only is a good market place for imported cosmetics products, the Indonesian Government wanted Indonesia to be a good place for manufacture them. It is indeed the case where some giant national/international manufacturers exist in the country such as PT L'Oréal Indonesia, PT Mandom Indonesia Tbk, PT Paragon Technology and Innovation, PT Martina Berto Tbk, PT. Mustika Ratu Tbk and PT. Unilever Indonesia Tbk. For some years now, the government has been implementing various incentives to increase the exports of cosmetics particularly to regional ASEAN countries neighbours, Middle Eastern countries, Africa, Latin America and even down under Australia.

The positive prospects of Indonesia's cosmetic industry has resulted in a rising number of local brands entering the market, thus it has resulted in a much tougher competitive landscape. But it is interesting to note that most Indonesian consumers like to try new brand especially those of foreign brands (or at least sounds/looks like foreign brands). But, if they feel comfortable with a certain brand then he or she is unlikely to switch to another brand. Therefore, companies are recommended to innovate and strategize well in a bid to boost their market share.

To deal with the rise of imported cosmetic products, local cosmetic companies have been aggressively educating consumers that foreign cosmetics are not necessarily suitable for the tropical skin type that most Indonesians have. In addition, local cosmetic manufacturers have begun to improve their product packaging & design as well as distribution which are some of the key weaknesses of domestic cosmetic products.

Halal industry in Indonesia has been seen as a gold mine for many investors. Total of 14% of the world Muslim population is indeed in Indonesia. Among the 250 million people, approximately 88% of them are Muslims. As of 2017, 1.8 billion Muslims have taken over 24% of the global population. This is the fastest growing population of the major religion.

# Relevant Contact and Trade Fair

## A. Relevant Contact

### Indonesian Ministry of Health

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### Indonesian Ministry of Industry

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## B. Trade Fair

### International Women's Exhibition (FEMME) and Celebes Beauty Fashion Week (CBFW) 2019

Website: <http://www.femme.co.id/> and <https://www.instagram.com/femme.official/>

Venue: Four Point by Sheraton Hotel Makassar, Makassar.

Date/Time: 3-7 April 2019.

The International Women's Exhibition (FEMME) and the Celebes Beauty Fashion Week (CBFW) 2019 event will be held with the theme 'The Future of Culture'. This fashion event is held by the Tourism and Creative Economy Office of the city government of Makassar.

There will be hundreds of brands and dozens of fashion show slots. Also it presents Fashion Show Parade, Fashion Show Competition and Talk show, and several other activities.

This event will be held in the capital city of South Sulawesi Province: Makassar.



Figure 44: CBFW 2019 Poster

Source: FEMME and CBFW Official Instagram 2019.

## The Indo Beauty Expo 2019

Website: <https://indobeautyexpo.com>

Venue: Jakarta International Expo (JI Expo) Kemayoran, Jakarta.

Date/Time: 4-6 April 2019.

Beauty Indonesia is a premier beauty trade show for industry professionals, part of UBM's portfolio of 6 Beauty Events in South East Asia.

The first trade-only show in the country with a clear focus on international participation and on representing all beauty sectors: ingredients, packaging & machinery, toll manufacturing, finished cosmetics, toiletries & personal care, wellness & spa, natural health, beauty salons, professional hair, nail and accessories. Additionally, Beauty Indonesia will implement a consolidated business matchmaking program to match the right people before, during and after the show.



Figure 45: Indo Beauty Expo 2019 Event Banner

Source: Indo Beauty Expo Official Website 2019.

## Beauty Indonesia 2019

Website: <https://www.beautyindonesiaexpo.com>

Venue: Jakarta International Expo (JI Expo) Kemayoran, Jakarta.

Date/Time: 19-21 April 2019.

Beauty Indonesia is the first trade-only event in Indonesia representing all beauty sectors: ingredients, packaging & machinery, contract manufacturing, finished cosmetics, toiletries & personal care, wellness & spa, natural health, beauty salons, professional hair, nail and accessories.

Part of the global UBM's beauty events series, Beauty Indonesia leverages the strength of the portfolio, its network and UBM's excellence in organizing events.



Figure 46: Beauty Indonesia 2019 Event Banner

Source: Beauty Indonesia Official Website 2019.

## Halal Beauty and Cosmetics Expo 2019

Website: <http://halalexpo-indonesia.com/> and <http://halalbeautyshow.com/>

Venue: Hall B of Jakarta Convention Center (JCC), Jakarta.

Date: 27-30 June 2019.

Indonesia International Exhibition for Beauty and Halal Cosmetics Industry is conducted in conjunction with Indonesia Agro Food Expo, Halal Indonesia Expo and Halal Travel Expo & Forum.

The Halal Beauty Show features an exhibit of beauty goods/appliances, cosmetics/ skincare products, hair care products, spa massage products, nail polish, fitness products, healthcare products, beauty & fitness service related provider, dental care products & accessories, aroma/holistic therapy products, detox/slimming products, organic products, perfume, fragrances, bath & body products, cosmetics, and much more.



Figure 47: Halal Indonesia Expo 2019 Event Banner which includes Halal Beauty & Cosmetics Expo

Source: Halal Expo Indonesia Official Website 2019.

## Beauty Professional Indonesia 2019

Website: <http://www.beautyprofessional.co.id/>

Venue: Jakarta Convention Centre (JCC), Jakarta.

Date: 13-15 Sep 2019 (To be confirmed).

Beauty Professional Indonesia is an annual 3 day event and in 2018 it was held from 13<sup>th</sup> September to 15<sup>th</sup> September 2018 at the Jakarta Convention Center in Jakarta, Indonesia.

This event is aimed at product distributors, pharmaceutical companies, R&D institutions, ingredient & product packaging suppliers, salon & retail shop owners and beauty professionals etc. Estimated participants in the 2019 event will be 20,000-50,000 Visitors with more than 500 Exhibitors will participate.



Figure 48: Beauty Professional Indonesia 2018 Poster

Source: Beauty Professional Indonesia Event Official Website 2019.

## Cosmobeauté Indonesia 2019

Website: <https://www.cosmobeauteasia.com/indonesia/>

Venue: Jakarta Convention Centre (JCC), Jakarta.

Date: 17–19 October 2019.

It is claimed as The Leading Professional Beauty Trade Exhibition in the region. Cosmobeauté Indonesia is part of Cosmobeauté series of beauty trade exhibitions which has been the only platform for the beauty trade professionals within the Southeast Asia region in Malaysia, Indonesia and Vietnam. Cosmobeaute has been continuing its commitment to be the most proven sourcing platform for beauty trade professionals to explore business in the spectrum of Aesthetic, Beauty, Cosmetic, Hair, Nail and Spa industry.



Figure 49: The Cosmobeauté Indonesia 2019 Event Poster

Source: Cosmobeauté Indonesia Official Website 2019.

## Abbreviations

ACD	ASEAN Cosmetics Directive.
ASEAN	Association of Southeast Asia Nations.
PPA Kosmetika	Association of Companies and the Cosmetics.
BPOM	Indonesia's National Agency of Drug and Food Control.
CAGR	Compound Annual Growth Rate.
CEPA	Comprehensive Economic Partnership Agreement (CEPA).
CPKB	Good Cosmetics Production Method (Indonesian: <i>Cara Pembuatan Kosmetik Yang Baik</i> ).
CPOTB	Good Method of Production of Traditional Medicines (Indonesian: <i>Cara Pembuatan Obat Tradisional yang Baik</i> ).
EUR	European Union Euro currency.
GDP	Gross Domestic Product.
HS Code	Harmonized System Code.
IDR	Indonesian Rupiah currency.
KADIN	Chambers of commerce and industry (Indonesian: <i>Kamar Dagang dan Industri</i> ).
KBLI	Standard Classification of Business Fields (Indonesian: <i>Klasifikasi Baku Lapangan Usaha Indonesia</i> ).
LP POM	Commission for the Study of Medicine and Cosmetics (Indonesian: <i>Lembaga Pengkajian Pangan Obat-obatan dan Kosmetika</i> ).
Masstige	Mass and Prestige (refers to a category that is more expensive than mass-produced products, but more moderately priced compared to prestige products).
MoH	Ministry of Health.
Mol	Ministry of Industry.
MSMEs	Micro, Small and Medium-sized Enterprises (Indonesian: <i>Usaha Mikro, Kecil dan Menengah-UMKM</i> ).
MUI	Indonesian Ulema Council (Indonesian: <i>Majelis Ulama Indonesia</i> ).
NLI	Negative List of Investment (Indonesian: <i>Daftar Negatif Investasi-DNI</i> ).
PPH	Import income tax (Indonesian: <i>Pajak penghasilan barang impor</i> ).
PT	Limited liability company (Indonesian: <i>Perseroan Terbatas</i> ).
SMEs	Small and Medium-sized Enterprises.
USD	United States Dollar currency.
Vlogger(s)	Video Blogger (influencer in social media and internet in general).

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