



Indonesia's Cosmetics Market

As personal incomes in Indonesia are rising quickly thanks to the country's rapid economic development, the market for cosmetics is definitely one to watch. Beauty and skincare products, even more than many other fast moving consumer goods (FMCG), are set to benefit from consumers' increasing ability to afford everyday luxuries. While sales of cosmetics have grown fast over the past years already, there is a lot of untapped potential as Indonesia's population grows in numbers and in affluence. Male consumers feature increasingly on the radar of cosmetic firms worldwide, and in Indonesia this segment of the market is just beginning to take off.

The allure of the domestic market notwithstanding, Indonesia is also a significant exporter of cosmetics

Nationwide sales of cosmetics increased by almost 15% from 8.5 trillion RP in 2011 to 9.76 trillion RP in 2012, according to figures from the Ministry of Industry. Based on estimates, Indonesian consumers continued to increase their spending on cosmetics at a similar pace in 2013, despite a depreciating Rupiah and accelerating inflation raising concerns about the national

economy. With both personal incomes and consumer aspirations on the rise, the market holds ample potential for long-term growth. Strong demand is attracting increasing imports of cosmetics from abroad, especially for premium products. Imports rose steeply from 1.87 trillion RP in 2011 to 2.44 trillion RP in 2012 and increased further to an estimated 3.17 trillion RP in 2013, the ministry's data shows.

Beauty trends and new consumers

Apart from Indonesia's robust economic growth, current beauty trends encourage the use of skincare products. 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.

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. An extensive survey by market research firm Nielsen found that sales of cosmetics in urban areas increased by 9.4% year-on-year in the first half of 2013, while in rural regions, sales boomed by 27.5%. The difference in growth can be partly attributed to the fact that many inhabitants of rural areas have yet to become regular consumers of basic skincare and make-up products, which have long become everyday essentials for more affluent urban dwellers. Cosmetic makers will want to focus their urban marketing effort on higher-end and specialist products.

The other major untapped market segment is that of Indonesian men. Cosmetics companies have reported sales growth in their male product lines at a multiple of the growth rates seen for female products. Facial cleansers and moisturizers as well as anti-ageing solutions are becoming increasingly popular among men in Indonesia, as targeted advertising campaigns featuring bikers and male celebrities seek to dispel the notion that using them is effeminate.

Local players in a global market

Global cosmetic firms are expanding their presence in Indonesia, where consumer goods giant Unilever has used its longstanding local presence to assume a leading position in the skincare segment. In addition to marketing its Pond's-branded skincare products, Unilever Indonesia has established a local brand around the Indonesian word Citra (Image). France-based L'Oréal sees so much potential in Indonesia that it picked West Java as the location for its largest factory worldwide. The opening of the plant in November 2012 followed annual sales growth of 30% in Indonesia for several years running. Local companies are keen to defend their own share of the home market with a number of highly successful brands. Leading Indonesian cosmetic producers are PT Mustang Ratu and the Marsha Tilaar Group (7% market share), which sells a range of brands under its subsidiary PT Martina Berto. There is no apparent bias towards local brands – quite the opposite, in fact. A 2013 consumer survey by Credit Suisse found that while Indonesians “prefer local brands for essential items, [...] appetite for foreign brands is higher for discretionary items such as fashion apparel and cosmetics, especially among high income earners.”

The allure of the domestic market notwithstanding, Indonesia is also a significant exporter of cosmetics. In promoting their products abroad, major brands highlight their use of indigenous natural ingredients and their roots in traditional herbal treatment and make a selling point of their claimed expertise on 'eastern skin'.

ASEAN integration ups pressure on local producers

Indonesia is home to hundreds of cosmetics producers, many of which are family-run small businesses. More and more of these firms are looking to ship their goods beyond national borders, and falling trade barriers

across the region are making it easier for them to do so. The ASEAN Harmonized Cosmetic Regulatory Scheme, implemented in 2008, standardizes rules on the safety and quality of cosmetics across the ten countries in the Association of Southeast Asian Nations. Notably, it requires national authorities to accept products that have been registered in any other member country, thereby tearing down non-tariff trade barriers that would in the past be misused to shield domestic producers from foreign competition. In addition, free trade agreements mandate a gradual reduction of import tariffs. Indonesia's Food and Drug Monitoring Agency (BPOM) reserves the right to monitor imported products for their safety and quality credentials, but cannot prevent increasingly tight integration in the regional cosmetics market even if it wanted to. Rising cross-border trade makes for a more competitive environment, which entails both challenges and opportunities for local producers. It certainly ups the pressure to make cosmetics of high quality at low cost. This should set the stage for market consolidation in Indonesia, with the aim to produce some strong players that can compete at the regional and eventually the global level. It should also inspire increased strategic or equity investment from abroad and cooperation between Indonesian and foreign cosmetic companies.

Growth prospects a strong case for investment

Increasing competition cannot take the shine off Indonesia's cosmetic sector. Strong demand growth from first-time users among the male and rural population as well as increasingly expensive tastes and rising affluence in urban centres make the country a highly attractive market, while the prospects of expanding into ASEAN afford local producers the opportunity to reach millions of additional consumers.

