

# The Consequences Of Macro-environmental Effects On The Cosmetics Industry

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Through the Analysis of the impact of macro-environmental factors, on the cosmetic industry. This report, discusses the findings of an environmental scan, of which identifies the opportunities and threats faced by the cosmetic industry. These are invoked by social, economic, technological, regulatory, and ecological factors.

Based on the findings of the analysis, critical threats and opportunities faced by the cosmetic industry include, but are not limited to:

**Social trend**, Shift in consumer behaviour regarding appearance, as a result of the changing demographic, and emerging ethnic markets.

This is an **opportunity** for producers to create products that benefit a range of demographic, and are marketable to an ethnically diverse consumer population.

**Economic trend**, There is an increase in disposable income per person in NZ, and consumer spending is steadily increasing.

This is an **opportunity** for cosmetic producers to invest more in producing higher quality goods, as consumers are more willing and able to purchase luxury cosmetics.

**Technological trend**, Development in technology regarding artificial intelligence.

This is an **opportunity** for cosmetic companies to let consumers safely test products through the comfort of their homes, using augmented reality applications.

**Regulatory force**, Tax imposed on goods purchased online that is valued below \$400

This is a **threat** for cosmetic companies with New Zealand based consumers, due to the increase in cost of cosmetic goods reducing the utility of consumers.

**Ecological Trend**, Consumer growing awareness and value of the environment.

This is a **opportunity** for cosmetic producers to research alternatives methods of testing cosmetic goods whilst opening the cosmetic market to 'green consumers'.

In 2017, the global cosmetic industry was valued at USD 532 billion, but projections estimate that by 2024, earnings will increase to approximately USD 863 billion (Zion market research, 2018) (Łopaciuk, & Łoboda, 2013). For the makeup industry, this social shift poses new opportunities. The demographics of consumers is changing and there is an increase of ethnic groups joining the market. The target market of makeup companies, which previously consisted of Western baby boomers, must adapt to meet the changing needs of its ageing clientele and evolve to accommodate the needs of new and ethnically diverse consumers.

With an ageing population, the needs of baby boomers are evolving, as they begin to demand makeup products with anti ageing qualities (O'Connor, as cited by, Kumar, 2005). This provides an opportunity for companies to explore cosmeceutical, combination of cosmetics, and pharmaceutical, to meet its client demand for anti-ageing products, (Natural Cosmeceuticals, as cited by, Kumar, 2005).

Additionally, as the population of consumers shift from baby boomers to millennial, makeup companies need to secure their relationship with the growing market of millennial buyers. To do this, makeup companies must be more inclusive when producing their new cosmetic lines. As the ethnic diversity of the millennial population, has resulted in current cosmetics products aimed at Western consumers, being incompatible with the diverse skin tones of ethnic clients, (MAKEUP, 2018).

Therefore, by offering cosmeceutical products, and pigmented cosmetics in their product range, makeup companies will be able to meet the needs of a large proportion of the target market. Meeting the changing demands of consumers, is vital to the viability and growth of the makeup industry, as it ensures that sales from existing clients do not diminish, whilst future consumers are secured by the makeup companies as the demographic change.

New Zealand's real gross national disposable income per person, has increased by 66 percent, between 1992 and 2016, (Statistics New Zealand, 2016). Additionally, consumer spending in New Zealand is steadily rising, with projections that it will reach 40594.00 NZD Million by 2020 (Trading economics, 2018). This is a positive trend for the cosmetic industry, as research suggest that both millennials', and baby-boomers', are willing to spend more on cosmetic brands who provide a high standard of product quality, (Zackiewicz, 2015)(Reily, as cited by, Łopaciuk, & Łoboda, 2013). This means that consumers of cosmetics, have the resources to afford luxury products, such as makeup, and are willing to spend their disposable income on these goods.

This provides the cosmetic industry with the opportunity to explore the use of, more expensive, or natural ingredients, as consumers are more likely able to purchase makeup, regardless of price. The product of this trend, is an environment, where producers are able to innovate and develop new and

existing products. Meaning that for smaller makeup companies, they are able to develop their brand and expand into the luxury/organic market. Whilst larger brands, have the opportunity to solidify their relationship with their consumers, by creating new or improving existing product lines, during this economic phase.

This is a significant opportunity for the makeup industry, as it indicates that the market has room for expansion. By taking advantage of this economic trend, the makeup industry ensures its viability during an economic decline. As past reports have claimed that, both millennials', and baby boomers', tend to stay loyal to familiar makeup brands, even when cheaper alternatives are available, (Pirc, as cited by Łopaciuk & Łoboda, 2013).

The development in the way we are able to use and understand technology, has allowed us to change the ways we do our everyday task. Some of these new innovation include the use of artificial intelligence, to create alterations in our appearance using mobile devices. A study conducted by Perfect365 (2017), claims that one large deterrent for consumers when testing new cosmetic products in-store relates to hygiene, with 63% of millennials and Gen Z consumers surveyed, claiming that they were unwilling to test cosmetics, due to concerns of contamination and germs.

With the innovation of augmented reality, makeup companies have the opportunity to overcome this issue. The development of applications such as 'modi face', allows users to test products on their phones using three-dimensional virtual makeup. This means that makeup companies are then able to allow consumers to test their products, in the convenience of their own home, without the fear of hygienic issues (MAKEUP, 2018). By making it easier for consumers to try new products, makeup companies increase the likelihood of purchase, as it allows various products to be trialled conveniently and efficiently.

This is a significant opportunity for the makeup industry, as it means that their products are accessible and can be tested by a larger range of consumers. With more people depending on technology, investments into augmented reality products by cosmetic companies, are an opportunity for them to increase sales, and ensure their viability during the development of the artificial intelligence era.

As of October 2019, a sales tax will be imposed on goods purchased online, valued below \$400 in New Zealand (Inland revenue department, 2019). This regulatory force poses a threat to cosmetic companies, as additional costs may deter consumers from purchasing makeup online, due to cosmetic products from oversea retailers becomes less affordable. Instead, they may choose to purchase

cosmetic goods produce within New Zealand, as New Zealand suppliers will have more competitive pricing.

This regulatory force poses a threat for the cosmetic industry as a whole. As there are only a few small makeup companies, who produce within New Zealand, (MAKEUP, 2018). Therefore, a majority of large cosmetic brands who operate overseas, will be forced to enforce this tax when shipping goods to consumer. This tax regulation will mean that for a majority of makeup companies, there will be additional barriers posed when entering the New Zealand market. This may result in many overseas companies withdrawing their product from the New Zealand market, depending on how sales are affected, after this regulation is enforced.

This bill is an important regulatory threat for companies who import their goods to New Zealand, as this impending force may effect the revenue of many companies, and potentially the growth of the cosmetic industry in New Zealand. It may mean that some smaller overseas companies, will no longer be willing to ship their products to New Zealand. Thus this regulatory force, may effect the viability of certain cosmetic companies within the New Zealand market for makeup.

Due to the growing effects of climate change on our world, more people are becoming environmentally conscious. This is causing an increase in pressure on various industries, to find more sustainable alternatives to the resources they use to produce their products. For the cosmetic industry, this trend has resulted in over 40 countries, including New Zealand, banning the testing of cosmetic products on animals, (Humane Society International, 2018).

This is an opportunity for many cosmetic companies, as advances in technology have produced more cost friendly alternatives to animal testing. Options include, artificial tissue method, and the test tube method, which are equally or even more effective than animal testing, when determining the safety of cosmetic products, (faunalytic, 2015). Hence, by switching to cruelty-free alternatives, it is likely to result in a decrease in expense for many companies in the long term. Additionally, switching from animal testing to cruelty-free methods, allows the cosmetic industry to market their product to the growing niche of 'green consumers' (Global web index, 2018). Whilst there may be initial infrastructure cost when sourcing alternative testing methods, it is an investment into the future of the cosmetic industry; organic and cruelty-free cosmetic's annual growth is almost 3 times higher than those of synthetic or animal tested products (Jones, & Duerbeck, as cited by, Fonseca-Santos, Corrêa, & Chorilli, 2015).

This trend cultures a significant opportunity to the cosmetic industry, as it drives the market to innovate and expand with the needs and values of consumers. Ensuring the viability and success of cosmetic companies, by motivating brands to produce products that resonate with their clients.

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