

Indonesia's Cosmetics Industry Attractiveness, Competitiveness and Critical Success Factor Analysis

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Abstract

Objective: This research aims to assess attractiveness, identify national competitiveness drivers, and critical success factors of Indonesia's cosmetics industry as Indonesia has an enormous growing market for cosmetics, but the revenue growth has been declining.

Design/Methods/Approach: This research uses quantitative and qualitative data to conduct a descriptive case study. The first step of the analysis is a pre-test using quantitative data gathered through a survey questionnaire to 30 cosmetics industry practitioners to ensure the validity and reliability of the statement used in this research. The second step is an in-depth interview with ten managers in top cosmetics industry firms in Indonesia.

Findings: It is shown that the cosmetics industry attractiveness in Indonesia is medium. Demand and factor conditions are the main driver of industry competitiveness. Strategy, structure, rivalry, and related and supporting industries are the supporting driver of cosmetics industry competitiveness in Indonesia. Finally, product, marketing, and speed are critical success factors in the cosmetics industry in Indonesia.

Originality: A current study of Indonesia's cosmetics industry mostly explained cosmetics market size, share, growth, segments, trend, industry forecast, leading players in the industry and customer behaviour. However, the study of Indonesia's cosmetics competitiveness landscape and industry critical success factor is still limited.

Keywords: Cosmetics Industry Attractiveness, Cosmetics Industry Competitiveness, Cosmetics Industry Critical Success Factor, Indonesia Cosmetics Industry.

JEL Classification: L660, M19



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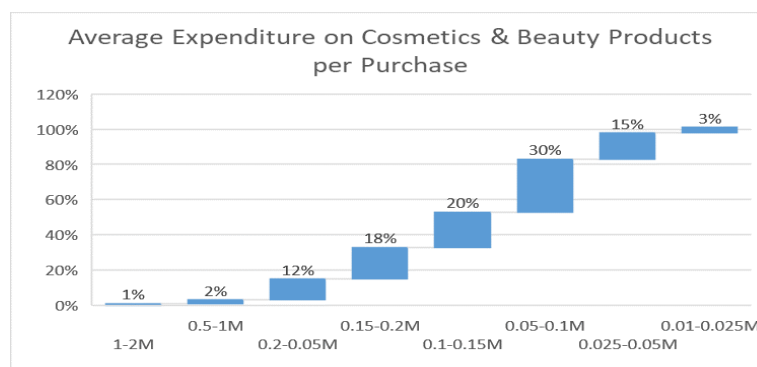
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I. Introduction

Cosmetics is one of the promising mainstay industries prioritized by the Ministry of Industry in Indonesia (Ministry of Industry of The Republic of Indonesia, 2015). It is shown from the rapid industry growth, around 7,5% in 2021-2027 based on a CAGR that makes Indonesia the fastest growing cosmetic market in Asia and is predicted to be the top five cosmetic markets in the world in 5-10 years (Indonesian French Chamber of Commerce and Industry, 2019). The rise of the cosmetics industry is driven by the growth of the population, awareness of health and wellbeing, and rising disposable income (Amberg & Fogarassy, 2019).

Targeting middle-class segmentation for cosmetics is also attractive as the customers relatively price insensitive. The middle class is the most lucrative market segmentation in Indonesia. They are huge in number and have disposable income to buy non-primary products rather than food, clothes, and housing. The biggest target market for cosmetics in Indonesia is middle-class segmentation. According to a survey conducted by Deloitte (2020), at least 70% of the market bought middle-class cosmetics. 30% of the market bought middle-lower products priced between Rp 50.000 – Rp 100.000, 38% of the market bought middle-middle class products between Rp 100.000 – Rp 200.000, and 12% of the market bought middle-upper class products between Rp 200.000 – Rp 500.000 as seen in figure 1 (Deloitte, 2020).

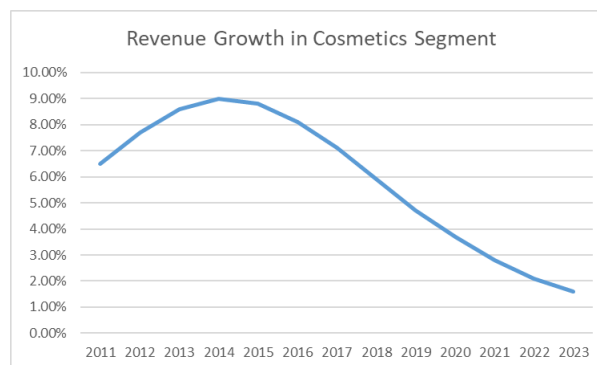


Source: Deloitte (2020)

Figure 1. Average Expenditure on Cosmetics and Beauty Products Per Purchase

There are two enormous players in the cosmetics industry. PT Paragon Technology and Innovation is a local organization that targets middle-class customers in Indonesia. L'Oreal S.A is a global cosmetics player targeting middle- and upper-class customers in Indonesia. Mandom Corp, a joint venture of Japanese and Indonesian cosmetics firms that target lower class customers for export and local markets, is in the third position. Oriflame Cosmetics S.A, an imported cosmetics distribution company, is ranked fourth. Another notable players includes Viva Cosmetics Ltd, PT Rembaka, PT Kimia Farma Tbk, PT Kosmetikatama Super Indah, Marta Tilaar Group and Tempo Scan Group.

Despite market and marketing efforts by domestic manufacturers, imported products and international brands dominate the middle-up and premium cosmetic market in Indonesia. However, Indonesia's local cosmetics products have recently gained competitiveness in the local market. The ministry of trade also supports the development of the cosmetics industry and export as cosmetics and personal care has become one of the top ten potential export products in Indonesia following the current top ten export (Ministry of Trade of The Republic of Indonesia, n.d.-b).



Source: Indonesian French Chamber of Commerce and Industry (2019)

Figure 2. Revenue Growth in Cosmetic Segment

Indonesia has promising markets to support the cosmetic industry. At the same time, revenue and profits are crucial concepts in industrial growth. The industry shows declining revenue growth as the industry has reached maturity, as seen in figure 2 (Indonesian French Chamber of Commerce and Industry, 2019). It affects the decision of trade and investment, industry growth, and the firm's capacity, productivity, and efficiency (Tyagi & Nauriyal, 2017). Industry attractiveness and profitability must be examined as the basis of strategic planning and decision-making. Industry profitability is also affected by industry competition level, firm position in the industry and competitive advantage (Hosseini et al., 2018). The competition level within an industry is influenced by its competitor or substitute, distributor or consumer, suppliers, and complement. Competition intensity can be analyzed using the Porter Five Forces model.

Porter Diamond Model and Critical Success Factor complements Porter Five Forces Model. Porter Diamond Model identifies the competitiveness factor of an industry. It also elaborates on the demand and resources factor at the macro level that is not included in Porter Five Forces Model (E. Dobbs, 2014). Critical Success Factor elaborates the call for action variables that complement environmental analysis. A firm's success is not only influenced by the environment but also by how the firm reacts to the environment. As an example, there are a lot of companies that failed in a lucrative industry. In order to be sustainable, a firm is expected to know the appropriate resource to develop what is known as a critical success factor (Çaldağ & Gökalp, 2020). Understanding critical success factors are the first step in developing a business strategy as it identifies characteristics, variables and conditions that significantly affect the firm success (Alias et al., 2014).

Despite the market prospect and challenges which raised the need for cosmetics industry analysis in Indonesia, most existing research is focused on brand and purchase intention. Even though the cosmetics industry is one of the main industries in Indonesia, there is a lack of study about the cosmetics industry at the strategic level. In the past ten years, there have been only two basic research studies about Indonesia's cosmetics industry analysis, which were conducted by Herdyanti & Mansoor (2020) about acne skincare opportunities and Natnaporn Aeknarajindawat et al., (2019) about exporting cosmetics to Bali. Indeed, most of the cosmetics industry literature is written by a market research firm describing market size, segmentation, key players, trend, opportunity, challenges, regulations, sales data, and performance.

Herdyanti & Mansoor (2020) analyzed acne cosmetics business opportunities by assessing industry profitability with Porter's Five Forces framework. They have found that Indonesia's acne cosmetics industry is profitable despite intense competition where Rivalry among existing competitors, bargaining power of buyers, and the threat of substitution is strong. At the same time, the threat of new entrants is weak. Meanwhile, the bargaining power of suppliers is very weak. At the same time, Natnaporn Aeknarajindawat et al., (2019) findings are slightly different from Herdyanti & Mansoor (2020) findings. The difference is in the supplier bargaining power, threat of new entrants, and key success factor. Natnaporn Aeknarajindawat et al. (2019) found moderate supplier bargaining power in the cosmetics industry. Meanwhile, the threat of new entrants is high. In order to be competitive, the player has to excel in terms of location, promotion, popularity, price, genuine, and hospitality service.

Considering the difference in findings and the absence of Indonesia cosmetics industry analysis at the macro competitiveness level, this research aims to analyze cosmetics industry attractiveness in Indonesia using Porter's Five Forces, competitive advantage using Porter's diamond model and critical success factor. The scope of the research is limited to big industry players in the middle-class customer market.

The results of our research contribute in several ways. First, this research further enriches the cosmetics industry's literature by considering strategic issues within the industry. Most literature about cosmetics in Indonesia has focused on marketing issues due to how market-oriented the industry is. Our research argues that a better strategic understanding of the said industry and its competition is crucial to sustain and improve the development of any firm within it. By employing industry attractiveness and competitiveness theory, this research is expected to give industry practitioners insight into strategic business strategy formulation. Moreover, this research studies the cosmetics industry's critical success factor, a crucial guideline for the industry's quick wins strategy.

The study is divided into five parts, starting from the introduction, literature review and hypothesis, research method, result and discussion, and finally conclusion. The introduction depicts cosmetics industry trends, market segmentation, key player, challenges, and previous study. The literature reviews and hypothesis consist of 3 existing theories as the basis for this research and detailed results of the previous study. The next part of this study describes the method employed in this research, including research design, data source, sampling, tools used, data analysis method, and measurement. The result is explained in three parts to answer each research question. Last but not least, the conclusion discusses the result summary, research limitations, and directions for future research.

2. Literature Review and Hypotheses Development

Porter Five Forces Model to Assess Industry Attractiveness

An industry is considered attractive if it has high profitability. The degree of industry attractiveness involves competition as a threat and long-term growth in sales and profits as an opportunity (Hosseini et al., 2018). Kučerová, (2014) adds market size, the stability of demand, industry and competitive structure, legislation, and purchasing power of customers as factors that enhance the attractiveness of an industry. Industry attractiveness can be analyzed through Porter's Five forces model. Porter's Five Forces include analyzing internal rivalry, entry, substitute and complementary products, supplier power, and buyer power (Paroma Mitra Mukherjee & Dilip Roy, 2016). Internal rivalry refers to competition intensity in a particular industry. Threats from new entrants are the possibility of a new player entering the industry. Substitution refers to the industry product or service that fulfils the same needs differently from another industry. The power of suppliers refers to the supplier's ability to influence the company's cost and end product or service by influencing the availability, quality, and cost of raw materials (Barutçu & Tunca, 2012). Buyer power refers to the ability of the customer to demand higher quality or lower price (Tanakorn Rachapila & Sittha Jansirisak, 2013).

Porter's Five Forces allowed us to assess an industry's attractiveness which helps industry practitioners to create better decision-making. However, some do not go beyond the Porter five forces framework to supervise the business environment, likely leading to flawed decision-making (Isabelle et al., 2020). Frequently, the industry structure is only one-factor affecting firms' profitability (Goyal, 2020). For example, the Porter Five Forces model ignores globalization and internationalization despite becoming a critical issue in sustaining a business. Modifying or adding an alternative strategic framework to the model is crucial to prevent bias and enhance the quality of decision-making (Isabelle et al., 2020). In other words, industry analysis should be done beyond the industry attractiveness.

Previous research about cosmetics industry attractiveness in Indonesia has shown inconsistent results due to the differences in cosmetics segmentation as the research object. Herdyanti & Mansoor (2020) revealed that the acne skin care industry was quite attractive with good opportunities and profitability. It was supported by the weak threat of new entrants and suppliers' very weak bargaining power. On the other hand, Natnaporn Aeknarajindawat et al. (2019) assessed that threat of new entrants was high, and the bargaining power of suppliers was moderate. Meanwhile, rivalry among the existing firm, bargaining power of customers, and threats from product substitution for acne skin care and imported cosmetics were great. In general, the number of cosmetics firms in Indonesia has grown by 23% in 3 years. There were 613 cosmetics firms in 2017 and 797 cosmetics firms in 2020 [Click here to enter text..](#) The trend confirms that it was relatively not difficult to enter the industry (Ministry of Industry of the Republic of Indonesia, 2020).

Regarding marketing, 48% of Indonesians prefer a global brand, 36% prefer a local brand, and 16% are indifferent (Indonesian French Chamber of Commerce and Industry, 2019). As a result, imported cosmetics product market share is around 70% of total revenue in the domestic market (Australian Trade and Investment Commission, 2018). Based on these findings, this study can confidently assume that imported cosmetics are a lucrative business in Indonesia. Suppliers of imported cosmetics relatively have a stronger role in the supply chain. However, the cosmetics industry's attractiveness could vary depending on the specific products and market segmentation.

Porter Diamond Model to Assess Industry Competitiveness

Competitiveness refers to the level of capability to produce goods or services and compete in a market. It is often confused with productivity, which refers to a firm's capability rather than the competition. At the same time, productivity is one of the factors required to compete in the market (Siudek & Zawojaska, 2014). Porter's diamond model is a framework to identify competitive advantage at the country level. Porter's diamond model elaborates the underlying reason some sectors in a country are more competitive than others based on some factors. Environmental antecedents such as factors, demand conditions, related and supporting industry, strategy, structure, and rivalry are used in the original version of this framework. After that, government and chance are added to the model (Bakan & Doğan, 2012).

Factor conditions involve the resources that support business operation and production and act as determinants of organization welfare and sustainability. Demand conditions refer to the extent customers are large and sophisticated in a particular country (Kharub & Sharma, 2017). Related and supporting industries are the existence of internationally competitive industries that support the business operation of a particular industry to be more cost-efficient and innovative, such as suppliers and complements (Barghouthi, 2017). Firm strategy, structure, and rivalry refer to the domestic competition level and how a company is created, managed, and organized. The government refers to the intervention and regulation made by the government of a nation that can affect the other four determinants either positively or negatively. Although Porter Diamond Model has sufficient validity, it may not convey an internal mechanism that explains how a firm faces a challenge and converts them into a useful ability. A firm's performance is not solely

influenced by external factors but also by its internal resources and ability to utilize them (Kharub & Sharma, 2017). Considering this limitation, a resource-based view which explains the internal factor of a firm is used to complement the study.

Previous research about cosmetics industry competitiveness in Thailand found that demand conditions, supporting industries and government were the competitiveness driver of the industry. However, factor conditions, firm strategy structure and rivalry have a negative impact on the industry, which require more attention (Jinachai et al., 2016). On the other hand, demand conditions, firm strategy, structure, and rivalry are the drivers of industry competitiveness in South Korea. Additionally, factor conditions, related and supporting industry were moderate. Korean local cosmetics firm was not as competitive as an international brand such as L'oreal. However, it does not affect the industry negatively.

On the other hand, industry competitiveness in each country may vary. To the researcher's best knowledge, no research has been conducted on cosmetics industry competitiveness employing the Porter Diamond Model. However, some cosmetics studies related to the variable of the Porter Diamond Model.

The market size of the cosmetics and personal care industry in Indonesia was projected to be around the US 7.095 billion dollars in 2020, both being the largest market and the third fastest-growing market in South East Asia. The demand for cosmetics in Indonesia contributes to 38% of cosmetics revenue in South East Asia, with revenue per capita around the US \$25,94 in 2020 (Istrata, n.d.). In terms of factor conditions, Indonesia has a comparative advantage in terms] of the number of human resources for production and low manufacturing labour cost that is less than one-fifth of China's, and the growth has remained flat. However, most cosmetics ingredients in Indonesia are still imported (Italian Trade Agency, 2018). At the same time, the cosmetics industry in Indonesia is dominated by international brands, namely Unilever, P&G, and L'oreal, despite a large number of small and medium cosmetics enterprises in the industry (Australian Trade and Investment Commission, 2018; Ministry of Industry of the Republic of Indonesia, 2020). Another key player in the Indonesian cosmetics industry includes local cosmetics firms such as Paragon Technology and Innovation, which produce Wardah cosmetics, PT Martina Berto Tbk - known as Martha Tilaar cosmetics group, Mandom Brands, and Mustika Ratu (Indonesian French Chamber of Commerce and Industry, 2019). In other words, the industry players are divided into multinational cosmetics companies that dominate the cosmetics market in Indonesia, a few large local cosmetics enterprises, and small and medium ones that sell local or imported cosmetics. The other industry supports the operations of the industry player. For example, sales channels such as malls (speciality stores), e-commerce, supermarkets, department stores, salons, pharmacies and drug stores are used to distribute the products (Allied Market Research, 2020).

Finally, the government plays an important role in protecting the industry and the customers through cosmetics business regulations. First, the cosmetics manufacturing company must get permission as stated in the health ministry Republic of Indonesia regulation number 1175/Men.Kes/Per/VIII/2020. Second, Anytype of cosmetics firm needs a Badan Pengawas Obat dan Makanan (BPOM) Certificate for the products before product distribution. Specifically for imported cosmetics, the cosmetics firm should fulfil the KBPOM (SKI) distribution policy which regulates that a product must have a minimum of one per three of its product shelf life when imported (Endang Pudjiwati, 2018). Another government intervention regarding imported cosmetics is that the Indonesia Ministry of Trade limits cosmetics imports to protect the local industry. The limitation includes import volume for makeup and skincare, perfume and fragrance, hair care, oral care, cleansing, and shaving care products (Ministry of Trade of The Republic of Indonesia, n.d.). Furthermore, the advertisement of cosmetics should follow the guideline from the Ministry of Health number 386/MENKES/SK/IV/1994 that Cosmetics are not allowed to be advertised as a medicine, demonstrated and/or targeted at a baby unless it is a baby care product, exaggerating the origin, characteristic, quality, quantity, composition, usage, safety, cosmetics limitation, etc (Sudiby Supardi Raharni et al., 2014).

Critical Success Factor

Critical success factors are one of a concept that is supported by the Resource Based View. Critical success factors are characteristics, variables, or conditions which influence a firm's success. Strategically, the Critical success factor defines the success of an organization. It ensures the organization reaches its goals and objectives in an uncertain environment (Chileshe & John Kikwasi, 2014). Customer and competition characteristics form critical success factors in the industry. Customer wants can be identified through demand analysis. Meanwhile, competition can be identified through competition analysis. The demand analysis includes who is considered as a customer and their needs and wants. The analysis includes the drivers of competition, the dimension of competition, competition intensity, and the way to reach superior competitiveness (Jens Graff, 2015).

Regarding pricing segmentation, the mass market dominates market size by serving 78% of total cosmetics sales in Indonesia. The remaining 22% of sales is luxury cosmetics, dominated by imported products. Consumer of luxury cosmetics considers quality, trend, and brand name when choosing cosmetics. In exchange, High-end consumers are

also willing to pay a premium price that makes them feel good and confident and conveys higher social status. In contrast, mass production is targeted at middle and lower-level income. These peoples are price conscious and easily influenced by the influencer on the internet (Istrata, n.d.). Age segmentation is categorized into generation Z, X, and millennials (Allied Market Research, 2020). The younger generation visits cosmetics stores more than the older generation and tries different products and brands. At the same time, they are more price-sensitive and influenced by social media influencers. The younger generation aged 15-24 buy four products on average and add up to four products when they are older. The middle-aged segmentation has more personal preferences and loyalty toward a cosmetic brand.

Besides key players, cosmetics original equipment manufacturer (OEM) and original design manufacturer (ODM) has taken a significant role in the market by providing manufacturing technology and service needed by the cosmetics company. As a result, many players in the industry easily enter and exit the market and compete based on differentiation. It attracts new cosmetics brands into the industry, namely celebrity cosmetics brands such as EMK by Maia Estianty, Ashanty cosmetics, Nefertiti Paris by Krisdayanti, Jedar cosmetics by Jessica Iskandar, Inul Beauty, Madame Gie by Gisela Anastasia, Ily Cosmetics by Prilly Latuconsina, OLLA by Olla Ramlan, and many more. The biggest cosmetics differentiations are priced between Rp 50.000 and Rp 200.000. In other words, the competition is not based on price but on differentiation. It has been shown that lower prices do not attract a bigger market share (Deloitte, 2020). Based on the problem identification and literature study above, the research question is formulated as:

RQ1. How attractive is the cosmetic industry in Indonesia based on Porter Five Forces Model?

RQ2. Based on Porter's Diamond Model, what is the driver of cosmetic industry competitiveness in Indonesia?

RQ3. What is the critical success factor of the cosmetic industry in Indonesia?

3. Method

The design of this research is a descriptive study. Meanwhile, the method of this research is a case study. Descriptive research is commonly used to confirm or describe a characteristic of a variable in research. The object being explained in this research is Indonesia's cosmetics industry characteristics using Porter Five Forces, Porter Diamond Model, and Critical Success Factor frameworks. On the other hand, (Aithal, 2017) categorizes industry and company analysis as a case study. Case study research aims to analyze one or multiple issues. It can be qualitative and quantitative analysis that is determined based on characteristic data and information gathered from the industry.

Both primary and secondary data and quantitative and qualitative data are collected in this research. Primary data in this research is collected through a survey questionnaire for pre-test and in-depth interviews for data analysis. Meanwhile, secondary data in this research is gathered from articles, industry reports and textbooks. Quantitative data is used for pre-test and assessing the level of industry attractiveness and competitiveness in data analysis. Qualitative data is used to understand the industry more comprehensively.

The population of this research is employees in a middle-up cosmetics firm in Indonesia. The sampling method of this research is non-probability purposive sampling. The sample for the pre-test of this research is 30 people who are working for cosmetics and related firms. Meanwhile, the sample for data analysis is ten middle or top managers currently working for at least two years in a big cosmetics firm that targets middle-class cosmetics in Indonesia. The final subject of this research is 60% manager in PT Paragon Technology and Innovation and 40% manager in L'oreal S.A. They have various job titles, including head of the supply chain, sales area manager, retail operation manager, senior product manager, customer marketing manager, head of channel head, business development, brand general manager, online brand manager and group head of marketing operation excellent.

The first step of this research is the pre-test to validate the statement and question, which data was gathered through a questionnaire and analyzed with SPSS. The second step of this research is data analysis, which was conducted through in-depth interviews and analyzed through data reduction and data display. Data reduction in this research is used to see the main factor of each indicator. However, the other response is considered and shown in the table and explanation. Data displayed in this research is used to summarise each variable's contribution to the industry attractiveness and competitiveness. To increase the reliability of category formulation. Rating is used to support the respondents' arguments and reduce measurement error (Brink, 1993). In other words, respondents do explain not only their judgment of a particular topic but also assess the level of their agreement towards the indicators using the Integral, Likert scale. The parameter used is explained in table 1.

Table I. Measurement

Framework	Dimension	Measurement	Source
Porter's Five Forces	Threats of new entrants	-Economies of scale -Product differentiation -Customer switching costs -Access to distribution channels -Access to supplier channels -Willingness to cut price	David Dranove et al. (2017)
	Supplier power	-Number of suppliers -Concentration of supplier -Switching costs -Resource differentiation -Importance of industry for supplier	Slater & Olson in Dalken (2014), Shvindina & Shkurko (2015)
	Buyer power	-Concentration of buyer -Buyers' sophistication -Buyer price sensitivity	Shvindina & Shkurko (2015)
	Threat of substitute	-Number of substitutes -Competitive advantage of substitutes -Buyer switching costs to substitutes -Profitability level of industries offering substitutes	Shvindina & Shkurko (2015)
	Rivalry Among Existing Firms	-Equal (size and power) competitors -Product differentiation -Magnitude of capacity expansion required -Switching costs	Shvindina & Shkurko (2015), Hubbarrd & Breamish, Slater & Olson, Johnson et al. in (Dalken, 2014)
	Porter's Diamond Model	Factor Condition	-Physical resource -Human resource -Infrastructure -Production and process technology
	Demand condition	-Value of brand -Home demand composition -Growth of demand -Internationalization of domestic demand -Customer behaviour	Jo H. M. Wijnands et al. (2015)
	Related and supporting industries	-Investment in research and development -Suppliers and distributors' channel -Marketing support -Financial support	
	Strategy, structure and rivalry	-Structure -Domestic competition -Productivity -Geographic concentration -Foreign supplier	Jo H. M. Wijnands et al. (2015)
	Government and chances	-Impacts of culture -Business climate -Rules and policy	Jo H. M. Wijnands et al. (2015)
Key Success factor	Customers	-Target market -Customer wants	Robert M. Grant (2016)
	Competition	-Competition driver -Dimensions of competitions -Intensity of competition -Superior competitive position	Robert M. Grant (2016)

4. Result and Discussion

The cosmetics industry attractiveness in Indonesia is medium, with an average scale of 3.253 out of 5. The most influential factor is customer power, followed by new entrants and internal rivalry. In contrast, the least influential factor is supplier power and substitutes. On the other hand, the cosmetics industry's competitiveness is high, with an average scale of 3.9 out of 5.

4.1 Industry Attractiveness

Indonesia's Cosmetics Industry Attractiveness is 'medium', with an overall average score of 3.255. This score is mostly contributed by customer bargaining power, new entrants and rivalry, as seen in figure 3. The most influential factor in the industry is customer power, as the industry offers mass products and is market-driven. The customer's bargaining power is high, with an average scale of 4.125 out of 5. First of all, Cosmetics customer characteristics in Indonesia are segmented that require product customization. In response, big cosmetics players in Indonesia have a brand portfolio serving different markets. Customer is also the main factor for operational area expansion and pricing decisions. The demand characteristic of each area in Indonesia is different. For example, Sundanese people in West Java have relatively more fair skin than the eastern part of Indonesia, which requires brighter makeup shades. Cosmetics firms decide the price based on the target customer's disposable income and willingness to pay.

On the other hand, the main characteristic of cosmetic consumers in Indonesia is experiential who are eager to try new products and different brands, especially when their current consumed brand does not offer a new product that matches their preferences. They are also impulsive and prone to promotion. They react positively to price promotion and marketing campaigns. On one side, it requires a marketing budget and reduced margin. However, they often end up buying more products than needed, which is beneficial for the business. As a result of similar product and customer characteristics, the customer has the power to demand more customized products and indirectly demand price promotion. It has a stronger influence than the competition as the customers are willing to use different cosmetics from different brands. Moreover, the cosmetics firm maintains the quality to retain customers.

The second influential factor with medium to high effect is the new entrants, followed by the internal rivalry, which is medium. They can create a new market trend and indirectly change the nature of demand through their action that affects the whole industry. Threats of the new entrant are considerably medium to high, with an average scale of 3.76 out of 5. Six out of ten industry practitioners believe that high demand attracts new entrants to join the cosmetics industry, especially since the profit margin is considerably high. Nowadays, it is relatively easy to find suppliers and distributors that realize the interest of new players in the cosmetics industry. In the past, economies of scale became barriers to entering the cosmetics industry. However, the availability and popularity of OEM and ODM cosmetics firms and emerging online channels have alleviated the barrier.

Consequently, the most significant impact of new entrants is creating demand for product differentiation. At the same time, new entrants are neutral on big players' operational capacity and pricing. Although, the cheap price offered by new entrants pushes the existing player to give price discounts in some market segmentation.

The cosmetics industry's internal rivalry is medium, with an average scale of 3.4 out of 5. Five out of ten practitioners said that innovation by the competitor affects business growth. At the same time, four out of ten practitioners argued that competitive pricing by competitors affects business growth. As a result, existing cosmetics businesses adjust the differentiation level to maintain and develop their market share. Four out of ten practitioners admit that they do competitor benchmarking for innovation. Switching cost of skin care is higher as skin breakouts may occur, although some customers are experiential. However, the switching cost of makeup is low as the customer can find a lot of brands with similar prices. As a result, the market share of the cosmetics business is affected significantly, but operational capacity is determined by the company strategy, not the competitors.

Either existing players or new entrants are the competitors in the industry. However, the threats of new entrants are more severe due to the nature of invisibility and the strong growth. In general, the new entrants do not significantly impact the incumbent's competitiveness but increase the level of differentiation of the product. At the same time, internal competition driven by innovation and differentiation does not hurt the cosmetics business significantly as most of the competition is healthy. In other words, the effect of new entrants and internal competition depends on the firm's ability to innovate and implement a differentiation strategy.

Suppliers and substitutes are less negatively influential in the industry attractiveness than other factors in the Porter five forces model. The bargaining power of suppliers is medium, with an average scale of 3.03 out of 5. Cosmetics firm has a preference to be loyal to a specific supplier. They have a main supplier and a few supporting suppliers to manage the risk of availability and stability of raw materials. However, the supplier has low power to dictate the price and quantity. There are many suppliers in the market, meaning that the cosmetics firm could switch to another supplier

if the price and quantity do not match their standard, although it takes time to find a new supplier. Some products can be easily substituted, such as packaging and basic materials. However, the specific material with a particular standard does not easily substitute. For example, due to quality issues, a product that claims to use a rose from France could not be substituted with a rose from Java.

The supplier has a neutral impact as the bargaining power of suppliers is medium as they have an important role in the business process of the cosmetic industry. However, a cosmetic firm as a vendor is also important to the supplier. Even though cosmetics firms tend to be loyal to their supplier, they are willing to switch their supplier if needed. For example, the supplier raises its price significantly despite stable industry market prices. Rather than competing and hurting each other, the supplier and cosmetics firm as a vendor collaborate for a long-term beneficial relationship.

The least influential factor is the threat of substitutes. The power of substitutes is low as there are no close substitutes. Conversely, the substitutes act as complementary as it does not change the demand for cosmetics products. Threats of substitutes for cosmetics are low, with an average scale of 1.96 out of 5. Three of ten industry practitioners assume camera filters, eyelash extension, and brow and lip embroidery as cosmetics substitutions. Two of ten industry practitioners assume beauty clinic treatment as cosmetics substitution. Other practitioners mention herbal drinks, a healthy lifestyle, natural beauty and confidence as cosmetics substitutions that fulfil the same needs offered by cosmetics that look pretty. However, it does not limit the profitability of cosmetics and differentiation because they act more as complementary. Those products or services still use skincare, makeup and other cosmetics.

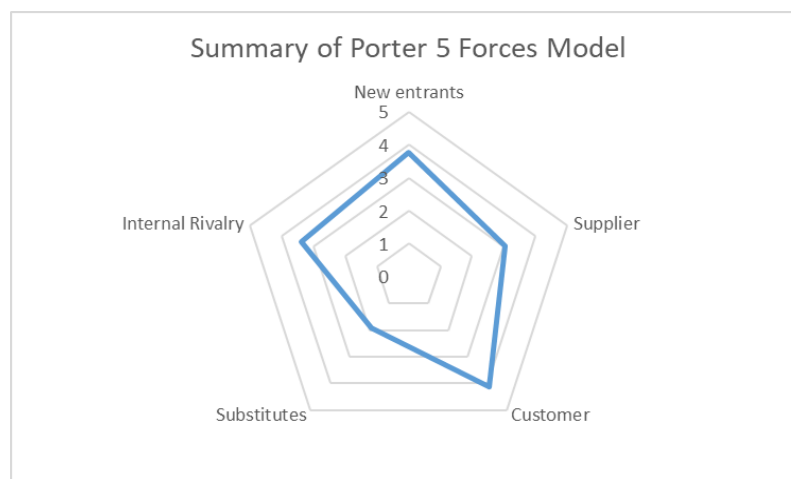


Figure 3. Summary of Porter Five Forces Model

This research's result is partially similar to the previous study conducted by Herdyanti & Mansoor (2020) and Natnaporn Aeknarajindawat et al. (2019). Herdyanti & Mansoor (2020) and Aeknarajindawat, Sawangdee and Toprayoon (2019) found that customer bargaining power is strong in accordance with this research.

However, Herdyanti & Mansoor (2020) and Natnaporn Aeknarajindawat et al. (2019) study reveal great rivalry among existing firms. However, this research found that the internal rivalry is medium to high. Both previous researches studied the smaller business scope of cosmetics in Indonesia. In contrast, this research focuses on the top cosmetics firm in Indonesia with stronger power. Some interviewees argue that the big players have relatively more power in the industry as they have a stronger brand and well-established structure that leads to operational efficiency. Therefore, the operational capacity of the business is not negatively influenced by the competitor. Otherwise, it may benefit the firm as the competitors create a new type of demand, such as more advanced skincare like ampoules and serum that expand the market potency.

Herdyanti & Mansoor (2020) found that threat of new entrants is low. In contrast, Natnaporn Aeknarajindawat et al. (2019) found that the power of new entrants is high. Both results of the studies differ from this research, which found that the threat of new entrants is medium to high. The scope of the research is different. Herdyanti & Mansoor (2020) studied acne cosmetics, while Natnaporn Aeknarajindawat et al. (2019) studied imported cosmetics in Bali, and this research studied general cosmetics. The number of general cosmetics entrants is more than acne cosmetics. Thus, the threats from new acne cosmetics entrants are less than the general cosmetics.

Meanwhile, the threat of new entrants in terms of imported cosmetics is higher than the local ones. This is because distributing imported products is easier since the brand has been established, and finding a distribution channel

is relatively easier than finding a suitable supplier or building a production facility. Especially Indonesian middle and upper-class people like to buy imported products, attracting new players to import cosmetics (Herdyanti & Mansoor, 2020).

At the same time, Herdyanti & Mansoor (2020) found that the bargaining power of suppliers is low, while Natnaporn Aeknarajindawat et al., (2019) found that suppliers' power is medium. This research results follow Natnaporn Aeknarajindawat et al. (2019) study. The power of the supplier depends on each buyer, the commodity bought and the competition intensity of the supplier industry. A major customer of a supplier usually has a stronger power than a minor customer. At the same time, the scarcer the commodity, the higher power the supplier has.

Herdyanti & Mansoor (2020) and Natnaporn Aeknarajindawat et al. (2019) found that the threat of substitutes is high. Besides skincare, people who suffer from acne can treat their problem in the beauty clinic, use a natural treatment such as aloe vera or lemon, or simply have a healthier lifestyle such as eating healthy foods and exercising regularly. In other words, there is a close substitute for acne skin care. On the other hand, Balinese culture is a bit different from other regions in Indonesia, as Bali is well-known for its natural beauty treatment such as spa.

4.2 Industry Competitiveness

The Cosmetic Industry's competitiveness is driven by demand and factor conditions, as seen in figure 4. Demand condition is the main driver of the Cosmetics Industry Competitiveness in Indonesia. The demand condition for the cosmetics industry in Indonesia is supportive, with an average scale of 4.15 out of 5. The characteristic of cosmetics customer in Indonesia is experiential, impulsive, and prone to promotion. Moreover, the cosmetics customer in Indonesia is more aware of the cosmetics differences and demands more advanced products. Four out of ten industry practitioners believe that trend of cosmetics has shifted to skincare and makeup products that contain skin care. It is believed that there will be a strong demand growth in upcoming years, and some producers could charge a higher price for branded cosmetics based on their branding strategy and target market. However, in some cases, they demand relatively cheap products of high quality. Even though it is costly to fulfil the advanced and demanding customer, it is rewarded by the volume of the demand and the willingness of the customer to spend on more products. The Indonesian potential market size is large in number. Indonesia contributes 40% of the population in Southeast Asia alone and 3,5% of the world population (World Population Review, 2021). Some industry practitioners believe that cosmetics have shifted from secondary needs to primary needs and that the market penetration in Indonesia at 50% can be enhanced. Four out of ten industry practitioners argue that local demand is more important than international demand because of the large population in Indonesia. Three out of ten practitioners add that cosmetics export value is still small compared with local sales.

Factor condition follows the demand condition as the most influential factor in creating national cosmetics industry competitiveness in Indonesia. Factor condition for the cosmetics industry in Indonesia is supportive, with an average scale of 3.95 out of 5. It has a relatively strong influence even though not as impactful as the demand condition—the reason is that the feasibility without market demand will not attract the business to focus. In contrast, market demand without feasibility will not work. The main advantageous factor condition in Indonesia is its enormous population which contributes a lot to Indonesia's cosmetics market size. Five of ten industry practitioners mentioned that future market size is the most advantageous factor for the cosmetics industry in Indonesia. At the same time, four of ten industry practitioners add infrastructure in a particular area as the constraints of factor condition for the cosmetics industry in Indonesia. For example, it is difficult to reach the customer in some places due to the high delivery cost, limited internet access and personal banking. Seven out of ten practitioners argue that being close to the market is the most important factor for the head office and distributor in the cosmetics industry. At the same time, five of ten practitioners argue that the factory also needs good infrastructure. Nevertheless, Indonesia has all the factors needed for a cosmetics firm to operate, such as labour and access to certain quality and quantity of raw materials.

Strategy, structure and rivalry are quite supportive, with an average scale of 3.8 out of 5. Strategy, structure and rivalry support the medium to high-impact industry competitiveness. Demand conditions and factor conditions are mandatory for operating the industry. In addition, strategy, structure, and rivalry affect the industry's competitiveness. Having a loose oligopoly market structure, the industry gives some space to new entrants and small players to survive through product differentiation and innovation, creating new demand or market. Responding to this issue, big players keep up with the changing market trend and absorb the new demand from smaller firms. In this case, most industry practitioners suggest the firm be lean and agile.

Furthermore, nine of ten industry practitioners prioritize marketing strategy to compete in the market. Five of ten industry practitioners add product strategy to strengthen their position in the market. That is why marketing campaign, advertising, and product performance is the key competition driver in the industry, along with price promotion, quality and innovation. Implementing the strategy, organization, and internal structure are important to develop a competitive advantage.

Related and supporting industries build national competitiveness at a medium to a high level, with an average scale of 3.7 out of 4. It accommodates the local industry by increasing the ease of business to focus on innovation, product development and branding as the key to the cosmetics industry. Four of ten industry practitioners stated that cosmetics firms depend on suppliers, distributors and retailers. Supplier and distribution channels play an essential role in creating competitiveness. Distributors and suppliers who are included in the main activities in the supply chain model play an important role in the cosmetics firm's success as they can ensure the product's availability. The distributor helps the cosmetics firm to reach the consumers and support the implementation of the brand's marketing campaign.

On the other hand, suppliers play an important role in ensuring production stability, including raw material availability. At the same time, suppliers can help the firm to develop a competitive advantage by offering high-quality materials at relatively low prices. Meanwhile, another related and supporting industry supports the cosmetics industry moderately, such as a market research firm that helps internal research and development to decide what kind of new product to develop. The advertisement production house, digital media agency and influencer also help the cosmetics business to enhance its existence in the market.

Finally, the government plays the least support in building national competitiveness as the market drives the industry. The government has not given significant advice to cosmetics firms as the market leads the industry. However, three out of ten industry practitioners mention that the government suggests cosmetics firms export. On the other hand, the government regulates cosmetics businesses to have permission from Badan Pengawas Obat dan Makanan (BPOM) before distributing each product. This regulation protects industry players and consumers from dangerous products as the product ought to meet certain standards. The standard reduces the number of products in the market and slows the competition. One out of the industry practitioners mentioned that the BPOM process for the local player is faster rather than the international player, which protects the local industry, especially since the cosmetics industry is led by fast-changing trend

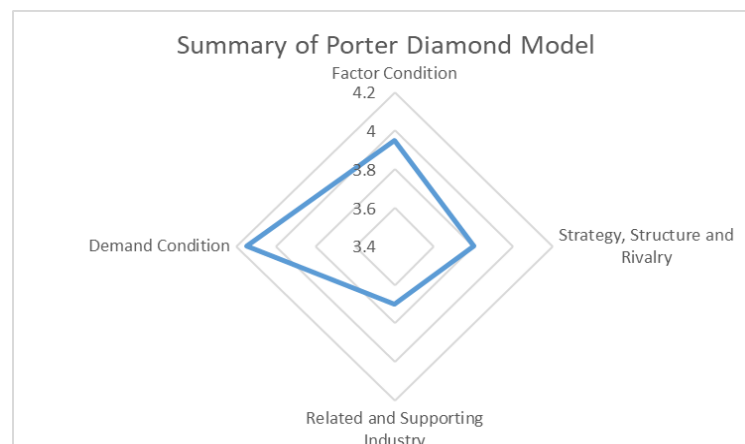


Figure 4. Summary of Porter Diamond Model

This research found that demand condition is the main driver of industry competitiveness in accordance with Indonesia's demographic. In 2021, the Population in Indonesia was 276,051,328 or ranked four in the world (Worldometer, n.d.). Meanwhile, the productive age (15-65 years old) of Indonesian who will be the target market of cosmetics customers in 2019 is around 67% of the whole population (World Bank, n.d.). Furthermore, one of the interviewees mentioned that the penetration of Indonesia has not been optimum, indicating a large market potency. The benefits of Indonesia's enormous population are limited to the demand and factor conditions. The large population is also beneficial for production as it is not difficult to find the worker at a reasonable price as the labour supply might be more than the labour demand.

Structure and rivalry are found medium, in accordance with the concentration ratio and Herfindahl-Hiirschman Index. The concentration of the cosmetics industry is medium. Top 8 company concentration ratio is 65,2%. Meanwhile, the Herfindahl-Hiirschman Index is 1.819. In other words, the market is a loose oligopoly with a medium concentration.

4.3 Critical Success Factor

A critical factor in the cosmetics industry is product and marketing. Product innovation is mandatory in maintaining cosmetics business sustainability. Customer of cosmetics is mostly woman who wants to look good. They are also eager to try more advanced products, so the most critical physical factor in the cosmetics industry is research and development. Cosmetics companies obtain a superior competitive position through innovation. It expands the customer base while maintaining the current customer by preventing them from switching to more innovative brands.

The marketing factor is equally important as innovation in the cosmetics industry. The marketing factor is divided into sub-factors: marketing campaign, distribution access, and service quality. In order to survive the intense competition, most of the key players in the industry focus on innovation and enhancing their distribution access for market penetration quickly. In terms of operation, speed is crucial to catch up with the fast-changing cosmetics trend. The more agile the company is, the higher the competitiveness is to absorb the market in which customers are easily influenced.

Even though the competition is intense due to a large number of players, it is still profitable because the rivalry is based on product, not solely on price. Finally, the competition can be measured using market share and marketing efforts.

Natnaporn Aeknarajindawat et al. (2019) show that the cosmetics industry's key success factors include location, promotion, popularity, price, and genuine hospitality service. Most of them are the dimension of marketing and distribution. Therefore, the result of this research is in line with the previous research with the additional innovation factor. Natnaporn Aeknarajindawat et al. (2019) focused their research on exported cosmetics whose production is not considered, which is why the innovation variable is not mentioned.

This research is also in line with the study conducted by Spire Research and Consulting, which argues that innovation is one of the main factors for cosmetics industry development in Indonesia. Branded and mass cosmetics that offer a unique differentiation contribute to the market development. Furthermore, the cosmetics market is led by trends. For example, currently, a man is starting to use cosmetics. In addition, beauty bloggers and vloggers use cosmetics for their content, which affects the cosmetics market trend (Miza Alvina, 2020).

5. Conclusion

The cosmetics industry attractiveness in Indonesia is medium. The competition is intense, and customers demand the best value products. Customer power is high. Threats from new entrants and internal rivalry are medium to high. Supplier power is medium, and the threat from substitutes is low. Indonesia's cosmetic industry competitiveness is high. Demand and Factor conditions are the drivers of high Indonesian cosmetics industry competitiveness.

Meanwhile, strategy, structure, rivalry, and related and supporting industries support the industry's competitiveness. On the other hand, the government's contribution to developing the cosmetics industry competitiveness is low. Finally, Critical success factors in Indonesia's cosmetics industry include product innovation, marketing, and speed.

The cosmetics industry is market-driven in which customer bargaining power for customization and more advanced products is high. Furthermore, threats from new entrants and existing firms are medium to high. Therefore, cosmetics firms should fulfil customer expectations by continuously launching a new products and eliminating irrelevant products. At the same time, demand conditions and factor conditions are the main drivers of competitiveness. Indonesia has a large population.

Moreover, penetration of cosmetics in Indonesia has not been optimum. In other words, there is a large potential market in the future, especially knowing that cosmetics have been shifted from secondary needs to primary needs. The future market is not only limited to the new consumer but current cosmetic consumers who buy more products. Thus, the cosmetics player should increase market penetration and development. Finally, speed complements product and marketing as the critical success factor of the cosmetics industry. Thus, lean organization structure and delegation are needed, especially in the marketing division. The company's internal structure should be efficient, ensuring the company becomes more agile.

The limitations of this research are the scope of the study. The interviewees of this research are limited to the expert in a big company that competes in the middle-class cosmetics market. Perhaps, the big player's point of view, such as theirs, may be different compared to the smaller player in the industry, as the business characteristic is likely to be different. Some smaller players may not have a production facility, as they import the products or use OEM/ODM services (indie brand). However, it is found that indie brands have high growth and are becoming more popular nowadays in Indonesia. Another interesting fact is that new-player imported products such as Implora also has rapid growth and even sells more product (in volume) than the current market leader. Therefore, future research can further compare the attractiveness or competitiveness of each type and segment of the cosmetics business, hopefully in different time periods, for better insight.

Author Contribution

Author 1: conceptualization, writing original draft, data collection, data curation.

Author 2: conceptualization, writing review, supervision, methodology.

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Conflict of Interest

The authors declare that the research was conducted without any commercial or financial relationships construed as a potential conflict of interest.

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