Marketing and cosmetic industry assignment

Art & Culture

Cosmetic industry Porters Five forces analysis The cosmetic Industry has grown over the past few decades and It Is currently a billion dollar industry. Many consumers of cosmetic products have realized the Importance of self image and presentation and this has boosted the purchase of cosmetic products across the world. There is great innovation in this industry which has also led to the gradual growth in the cosmetic industry.

Products such as lotions, creams, lipsticks, perfumes, makeup, toe and nail polish, hair spray and gels, bath alts and bubble baths as well as baby products are in high demand especially in developed countries. The global cosmetic Industry generates over $160 billion, which shows the importance of the industry (Begun, 2003: 23-24). However, there are certain factors which affect the entry to the cosmetic industry by firms. These factors can be briefly analyzed using the Porter Five forces analysis.

They include the threat of substitutes, threat of new entry, bargaining power of customers and suppliers as well as intensity of rivalry in the industry (Porter, 1980: 5-11). These factors should be assessed whenever a firm Is entering any industry since they help the management develop effective marketing and competitive strategies. Knowledge of the Porter Five forces also helps business evaluate the feasibility of making profits in the long run. This paper will evaluate the cosmetic Industry In relearn to the Porter Five forces.

The five factors which were developed by Porter will be applied to the industry in order to develop a competitive entry strategy. In addition, the barriers to entry and exit in the industry will be discussed in detail.

Recommendations will then be made n how businesses may appropriately apply the Porter Five Forces model In order to enter the cosmetic industry and achieve long term profitability. The discussed issues will be summarized at the end.

Cosmetic industry The cosmetic industry has grown over the decades to become a billion dollar Industry, surpassing many other products which are sold In the market. Consumers are aware of the importance of cosmetic products and especially their positive Impacts on Improving self Image, confidence and self esteem. They are also aware of the importance of first impression both at the workplace and in society in general Bruno et_ al_, 2010: 56-59). The realization of the Importance of cosmetic products has spurred demand for these products which are consumed by both males and females equally.

As was stated In the Introduction, the global cosmetic industry generates over $160 billion. In addition to consumer knowledge, there has been increase in Innovation of deferent cosmetic products across the world. These products aim at improving the physical and mental state of humans in general. Due to increased innovation and supply, demand for cosmetic products has also gradually Increased (Winter, 2005: 5-7). However, It must be noted that the global cosmetic industry is a large industry which has high entry costs, if firms are to be successful. Tots development to meet client needs. In addition, the intense competition presently seen in the market especially by large manufacturers such as Avon, Revolt, Clique, Esteem Lauder, LURE, Mac, Milliner and others, demand high expenses in marketing and advertising (Kettle & Professor, 2006: 63). These are already established global cosmetic brands which have market goodwill and loyalty, and capturing a fair market share demands aggressive advertising and innovating unique products.

Further analysis of the cosmetic industry with respect to the Porter Five forces will be undertaken below; Porter's five forces analysis The Porter Five forces were developed by Porter and they analyze internal and external factors which affect the competitiveness of a product or industry. They include the threat of substitutes, threat of new entry, bargaining power of customers and suppliers as well as intensity of rivalry in the industry (Porter, 2008: 3-7). These factors will be identified and applied to the cosmetic industry.

Threat of new entry This factor analyzes the ease with which firms may enter into an industry. Competitive industries are likely to attract many firms which will strive to capture a market share (Soaker, 2001 : 23). This is likely to reduce the overall profitability of firms which are present in the industry. In order for firms to enjoy long term profitability, they should develop customer loyalty within their industry. This will ensure that although new firms enter an industry, their market share is unaffected since customers have faith on their products.

Development of customer loyalty is achieved through innovating new products which meet the unique market needs. The cosmetic industry has a low threat of new entrants. This is due to several factors. The first is the huge costs of entry. Developing unique cosmetic products requires a lot of resources both in terms of research and development and the actual manufacturing process. Few middle and small scale firms have access to the funds and expertise required to perform this effectively. Another factor which discourages entry into this industry is the huge competition present in the industry.

In addition to the huge competitors such as Avon, Revolt, Clique, Esteem Lauder, LURE, Mac and Milliner, who eve a large market share, there are many other small scale competitors who also have a small market share and who reduce the overall profitability of firms in the industry. Bargaining power of customers The bargaining power of customers analyzes the power which consumers have relating to price changes in the industry. This factor analyzes the power which consumers have in manipulating price changes due to shifts in demand (Soaker, 2000: 102-120).

When consumers have a high bargaining power, the manufacturers and them unable to achieve long term profitability due to unpredictable demand tatters. The cosmetic has a high bargaining power of customers. This is due to the increase competition and availability of cosmetic products from a variety of manufacturers. Since these products have high substitutes, then it is possible for consumers to force manufacturers to reduce their product prices through purchasing those of their competitors. This is a challenge which manufacturers of cosmetic products face across the world.

Bargaining power of suppliers This factor analyzes the power which suppliers have regarding making price changes for their products. Suppliers who have a high bargaining power are able to influence price changes through using techniques such as market manipulation through hoarding and restraining supply. Although some of these strategies are illegal in many countries, suppliers usually apply them when they want to effect price changes (Dilled et. Al. , 2006: 33-36). The cosmetic industry has a low bargaining power of suppliers. This is due to the high number of market players and large supply of diverse products to the market.

There are many cosmetic products which are developed by both large and small scale manufacturers. Due to the huge supply, consumers have the power to influence the market prices as opposed to the suppliers. Threat of substitutes The threat of substitutes arises when there are similar products developed by competitors which satisfy the market needs. When consumers have access to substitute products which can satisfy their market needs, then manufacturers and suppliers lose their bargaining power. Consumers are able to purchase competitor’s products if they are not satisfied with product price or quality.

In order for suppliers to tackle the challenge of threat of substitutes, they have to innovate products which et the needs of their target market segments (Keller, 2003: 595-600). In the cosmetic industry, there are many competitors as has been discussed. There is therefore a high threat of substitute products. If manufacturers sell their products at higher prices, or if the products are of low quality, then consumers are able to purchase substitutes from the many competitors who are present in the market environment (Gregory, 2003: 77).

It is therefore essential for the market players in the cosmetic to be innovative if they are to tackle the challenge of the threat of substitute.

Barriers to entry and exit Barriers to entry and exit refer to the challenges firms face when entering or leaving the industry respectively. It has been discussed that there are huge costs which are associated with entry to the cosmetic industry. These costs include costs for entry in the cosmetic industry. In addition, there are many competitors who reduce the overall profitability of the industry, which makes it a barrier to entry.

Finally, the many large scale cosmetic firms which enjoy economies of scale make it a barrier to entry especially for middle and small scale firms. Barriers to exit include the high placement and research costs. Due to the high costs associated with developing cosmetic products, it is difficult for firms to leave the industry without achieving the costs for production. There are also many machines and equipment used in developing cosmetic products and disposing these at a fair market value is difficult hence making it an exit barrier.

Seller and buyer concentration The cosmetic industry is appealing fir people of all age groups and social backgrounds. There are many cosmetic products which are tailored to meeting the needs of different market segments. The buyer concentration can therefore be deemed as low since there are many buyers who cut across different market segments both in the developed countries and the developing countries. However, the seller concentration may be deemed as high in developed countries.

Many large scale cosmetic producers are concentrated in develop countries such as the United States, France and Germany. For instance, the cosmetic industry is valued at $6 billion in France and $12 billion in Germany. In the

US, it is valued at over $20 billion. However, the seller concentration in developing countries and emerging markets is elatedly low. Few firms have ventured into developing products which meet the specific needs of this market segment. In order to achieve long term profitability, new market entrants should focus on this neglected population segment.

The high seller concentration in the developed countries leads to high competition and an overall reduction in profitability for cosmetic firms in this industry. Recommendations on proper entry strategies In order for firms to successfully enter and attract a market share in the cosmetic industry, various recommendations should be implemented and these will be scudded below; Focus on emerging markets and developing countries It has been discussed that there is a low seller concentration in emerging markets and developing countries.

This target market segment has been largely ignored despite its potential in the cosmetic industry. Firms which enter this industry should develop affordable cosmetic products which cater for the different needs of emerging markets and developing countries (Lascar et. Al. 2003: 11-19). Although these products should be affordable, product quality should not be compromised. The snacking should be done in different sizes and quantities which are affordable for customers.

Due to the high competition present in the cosmetic industry, it is important to implement a cost leadership strategy. This involves pricing cosmetic products lower than competitors to attract consumers. The cost leadership strategy will ensure cosmetic products are cheaper than those of competitors and customers will be attracted from the large cosmetic firms which sell products at higher prices (Bateman, 2010: 44-46). Developing customer loyalty will ensure long term profitability.