

A pestel analysis of the cosmetics industry



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INTRODUCTION

According to the Cosmetic Products (safety) Regulations 1996 cosmetics can be defined as any substance/preparation that is used on the skin, teeth, hair, nails, lips or external genital organs, with the intention to cleanse, perfume, change the appearance of, to protect, keep in good condition or to correct body odours. (Cosmetic products (safety) Regulation, 2003b) According to the European trade association the European cosmetic industry actually consist more than 4000 manufactures which also includes small and medium manufactures. Cosmetic got a high demand in the society and as a result there have been so many cosmetic firms all over the world. The main purpose of this analysis is to understand how thePESTEL analysisaffects the cosmetics industry. In this report I will talk about political, economic , social, technological, environmental, legal factors in details to have a clear understanding how each of these factors affect the external environment of cosmetics industry. These factors cannot be just ignored as an organisation because these external factors will provide the organisation to have a wider understanding about the business environment and It will help the organisation to anticipate the future obstacles and find precautions for them.

Legal aspects

Legal factors include employment regulations, competitive regulations, health and safety regulations, product regulation ant etc. These factors can affect an organization in many ways such as how a company operates, its costs and also the demand for its products. In recent years UK there have been many changes in legal regulation changes that affects the firm's behaviour.

1. 1 consumer law

When it comes to consumer law it includes three main acts, they are

The sale of Goods act which will give you a range of rights when you buy something in the current market. This act includes the right product quality of a product and any product you purchase should fit your purpose of buying.

The consumer protection (distance selling) regulation: This regulation mainly includes the rights regarding purchases via internet or phone. In recent years this kind of sales has been very popular in the world and mainly in European countries. You can buy anything via internet nowadays. Many people tend to use this service in order to reduce the cost and make their life easy. So this act sets clear guideline on how retailers should do the selling which includes explanation about the product, services, product cost and delivery and also order cancellation.

The consumer credit act: Many people tend to buy things on credit, especially when we speak about luxury goods. It may be under hire purchase agreement or anything under credit. So this regulation will take care of the customers who buy things on credit. It clearly mentions how your credit contract should be which includes information regarding the customer agreed amount, payment methods and information and credit chargers.

(consumer Law, 2010)

1. 2 Employment regulations

Employment regulations are going to affect the workers and the organisations both. There are many regulations regarding this, for example

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individual labour law, wages and working time, child care and flexible working, Equality act, job security and etc.

Wages and working time is widely described in the “ National Minimum Wage Act 1998” which was introduced after the election in 1997. According to the website [www. direct. gov. uk](http://www.direct.gov.uk) the current national minimum wage rates are as follows,

£5. 93 for workers aged 21 and above

£4. 92 for the workers aged between 18-20

£3. 64 for the workers aged between 16-17 school leaving age but under 18)

£2. 50 for the apprentices under 19 or 19 or over in the first year of their apprenticeship (The national Minimum wage rates, 2010)

Equality Act 2010 is another regulation in UK which organisations had to follow. This is a framework which exists for the eight major categories of discrimination. For example,

Sex Discrimination act 1975

Equal pay act 1970

Protection from harassment Act 1997

Employment Equality regulations (sex) 2003

Race Relations Act 1976

Disability Discrimination Act 1995

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Employment Equality (Age) regulations 2006

Employment Equality (religion) regulations 2003

Political aspects:

2. 1 European Cosmetics Regulations 1223/2009

Political aspects can be explained as what degree a particular government intervenes in the economy of a country. In particular this includes areas like:

Political stability

Legal framework for contract enforcement.

Pricing regulations

Taxation and etc.

When we speak about the cosmetic industry in UK the European Cosmetics Regulations 1223/2009 is very important as it contains all the regulations that a cosmetic industry should follow in order to stay active in the current UK market. This was published in the official journal of the European union which was signed on 30 November 2009 by the president of European parliament and the council ministers (journal citing*****). This regulations includes the following:

Scope , Definitions

Safety, Responsibility, Free movement of goods

Safety assessment, product information file, Notification

Restrictions for specific substances

Animal testing

Consumer information

In market control

Non-compliance, Safeguard clause

Co-operation between competent authorities

Implementing measure, Final provisions

2. 2 Cosmetic products (safety) regulation 1996

All the cosmetic products in the market is governed by the rules as set out in the Cosmetic products (safety) Regulations 1996. It is a must for the cosmetic industries to make sure that the products they sell in the market is safe to be used by customers and no harm caused by them. All cosmetics products should be labelled with the following information according to the Cosmetic products (safety) Regulations 1996. (Cosmetic Products (safety) regulations, 2003)

A List of ingredients

This should appear on the outer packaging of the item, or if there is no outer packaging, on the container itself. In relation to small items such as lipstick and mascara's, this information can appear on a label attached to the product or in the near vicinity of it.

The name and address of the manufacturer/supplier

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These details must be of someone within the EEA. If a full postcode is sufficient to identify the address then this is acceptable.

A minimum durability indication

This should appear on both the outer packaging and the container itself. Storage instructions should be given to enable the consumer to keep the product at its best up until this date.

Warning and precautionary statements

These should appear on both the outer packaging and the container itself

. 5) Batch number or lot code

This unique number will help a manufacturer to recall a batch of products if need be.

The product function

This may be given, where appropriate, unless the function is clear from the presentation of the product.

Weight marking

This is required under the Weight and Measures Act 1985.

The above 7 safety regulation should be mentioned in any cosmetics product before the cosmetic manufacturers sell their products in the market. Any violation of these regulations may lead the organization for a close down.

2. 3 Taxation and the effects on organization

When we speak about political aspects, tax rate has a major impact on the industries. For a example an increase in tax will result in a immediate rippling effect and it will affect the cost structure of the business and the cash position. The following image shows a comparison of corporation tax of the year 2008, 2009, 2010 and 2011.

Image 1, Corporation Tax rate (2010)

Corporation tax be defined as taxation payable by companies. From the above digarm you can see that main rate of corporation tax has been 28% in the years 2008, 2009 and 2010. There hasn't been any increase or decrees in the rate in those years. In 2011 it is mentioned that the main rate of corporation tax has been dropped to 27% and small profit rate tax also drop to 20% from 21%. This will affect the cosmetic industry positively. This will encourage the current cosmetic manufactures and they will be more stable in the market.

3. 0 Economic factors

Economic factors mainly affect the purchasing power of customers. The more customer demand for the product the more profit to the organization, at the same time if there is no customers demand it's going to affect the organization in a negative manner. So economic factors are very important external factor that affect the cosmetic industry. Economic factors include,

Unemployment rate

Economic growth rate

Interest rate and etc.

3. 1 Unemployment rate

Image 2 United Kingdom unemployment rate, 2010)

The above chart clearly shows the unemployment rate of UK from 2009-2010. In the beginning of the year 2009 the unemployment was as low as 5.5% compared to the end of 2010. If we focus on the year 2010, there has been a considerable drop from April 2010 to September 2010, but again there is a rise of unemployment rate again in October 2010. Usually a rise in the unemployment rate indicates that a part of customer base has lost their purchasing power. This will mainly affect the luxury goods as people will change from luxury goods to cheaper goods. In other words unemployed people will have to spend less money than the other employed people. So the business won't be able to make money as they used when people were employed. In an economy if there is a large population unemployed there is a high risk of organizations closing down. Especially luxury good manufactures. This affects the cosmetic industry too. As we are speaking of luxury cosmetic products there is a high risk of manufactures losing business.

3. 2 economic growth rate

Economic growth can be simply defined as the increase of gross domestic product (GDP). GDP is usually calculated on an annual basis and GDP is commonly used as an indicator of the economic health of a particular country. The Gross Domestic Product (GDP) in the United Kingdom has expanded at an annual rate of 0.7% (national and this positive figure will

provide a positive outlook for business and organizations. This shows that government of UK in general has done its job very well affecting the business and organizations.

3.3 Interest rate

Usually business organizational spending and expansion are tied to the interest rate. The current interest rate in UK is 0.5% and this was unchanged since 5th March 2009. This is actually a very good rate compared to the beginning of 2009. According to the <http://www.houseweb.co.uk> the interest rate on 8th Jan 2009 was 1.5%. In 7th Feb 2008 the interest rate was 5.25% which is a bigger rate compared to now. (UK Interest Rates, 2011) If we analyze the UK interest rate it has been dropping continuously. This means interest rate is low. A high interest rate may prove too costly and this will discourage many organizations from implementing strategic plans. But currently UK interest rate is low, which means it encourages the purchase of items of greater value on credit because of lower interest rate and this is a very good environment for the Cosmetic industry.