MANUFACTURE OF COSMETICS AND OTHER TOILET PREPARATIONS

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1. **INTRODUCTION**

The most recent estimate of the contribution of the cosmetic sector to manufacturing Gross Domestic Product (GDP) is 1% while a study commissioned by the Department of Trade and Industry (DTI) in 2012 estimates its contribution at retail level to be R25.3bn. This report focuses on the cosmetic manufacturing industry which has made substantial gains to overcome the effects of isolation and to become more efficient and competitive in the global arena. Industry associations and the government are actively working together to address competitive imbalances and to encourage the vibrant and varied industry to expand.

2. **DESCRIPTION OF THE INDUSTRY**

The South African fragrance, cosmetic and toiletry manufacturing industry is a sub-sector of the chemicals manufacturing industry. The industry comprises the following.

- Multinationals who manufacture as well as outsource, and account for 90% of the sales in the market. Multinationals have the advantage of significant marketing power, internationally recognised brands and ready access to funding for research and development.
- Many small, medium and large local companies who manufacture their own brands, or manufacture international brands under licence.
- Contract or third party manufacturers (TPMs) who are contracted by brand owners.
- Distributors focused on the import and export of products.

Many of the companies that manufacture cosmetic products also manufacture products such as household cleaning agents, as the processes involved are similar. At least 90% of production is carried out by the large multinationals, Pfizer, Unilever, Johnson & Johnson, Procter & Gamble and Colgate Palmolive.

Within the market there is a distinction between premium products and mass market products. The market for premium products is relatively small, while the mass market represents an area where large volumes of sales can be achieved. An increasing number of products in this sector cater specifically for local ethnic skin and hair types and the ethnic market accounts for 60% of all spending in the cosmetics sector. Although the expanding black middle class is moving to more expensive ranges, there remains significant demand for affordable yet effective products.

The local industry is supported by the Cosmetic, Toiletry and Fragrance Association of South Africa (CTFA) and the Chemical and Allied Industries Association (CAIA). The government has included the chemicals sector in its New Growth Path and the Industrial Policy Action Plan (IPAP) in an attempt to develop local manufacture. Many companies are members of the Cosmetic Export Council of South Africa (CECOSA).

2.1. **Industry Supply Chain**

- The inputs into fragrance, cosmetic and pharmaceutical products include a variety of speciality raw materials, including chemicals, fragrances, essential oils, thickeners, surfactants, preservatives, colourants and active ingredients. Many of these ingredients are imported, which puts South African manufacturers at a disadvantage. A concern expressed by industry participants is the fact that imported ingredients are still subject to an ad valorem ‘luxury’ tax of between 5% and 7% in addition to excise duties.

- As the packaging of cosmetic products is such an essential factor, manufacturers have acquired facilities to provide associated packaging services. Beige Holdings, for example, acquired Crystal Pack (Pty) Ltd in 2007 and the specialised pump company, Rap Products, in 2008.

- Various sales and distribution channels are used by operators in the fragrance, cosmetics and toiletries sector, including sales through retail stores, direct marketing by agents to customers, niche sales to salons and spas, distribution through franchised channels, internet sales and informal sales in environments such as trading stalls and taxi ranks. Many companies make use of a combination of distribution channels with on-line sales increasing as technology improves.
3. SIZE OF THE INDUSTRY

Revlon dominates the overall local cosmetics market with approximately 33% of the market due mainly to its Revlon, Charlie and Almay brands and Cutex nail polish. Avon and L’Oreal come second and third with approximate shares of 15% and 14% respectively. The other main players in colour cosmetics include Indigo Brands, Clinique, Estée Lauder, Cosmetix and Avroy Shlain Cosmetics. In particular market segments such as eye make-up, L’Oreal is the market leader while Revlon leads in the facial products segment.

4. STATE OF THE INDUSTRY

4.1. Local

The CTFA worked closely with the Department of Trade and Industry (DTI) during 2012 in the carrying out of an in-depth study of factors affecting the cosmetic industry and emphasised the necessity for removing the current ad valorem tax. The association was also part of a task team for the Consumer Goods Council of South Africa (CGCSA) to develop a Code of Practice and participated in the finalisation of the Consumer Goods and Services Ombud (CGSO). According to both of these bodies the cosmetic sector received the lowest number of complaints in 2012, attesting to the high level of standards in the industry. Investments by government into the Chemicals and Allied Industry as part of IPAP amounted to R496m with the Cosmetic industry receiving 4.4% or R22m of this amount. As a result of the Industrial Development Corporation (IDC) investment in Marula Cosmetics Products (Pty) Ltd, the company which supplies marula products to the local and international cosmetics industry, was able to install the world’s first marula pip-cracking equipment. Support and funding from small business initiatives such as the Pick n Pay Foundation also provide assistance to small, medium and micro enterprises (SMMEs).

Direct selling cosmetic companies have shown particularly good progress locally and on the African continent. The leading direct selling cosmetics companies in South Africa are Avon-Justine, Avroy Shlain, Sh’zen, Vanda, AnIQUE and Jean Guthrie. According to the Direct Selling Association of South Africa (DSASA) local direct selling companies experienced overall sales growth of 12% between 2011 and 2012. In 2012, 1.37 million individuals involved in direct sales brought in revenue of R8.779bn. Avroy Shlain, which has more than 70,000 distributors and also sells products in Namibia, Botswana, Lesotho and Swaziland, reported average growth of 35% between 2009 and 2013. In 2012 Avon together with the UK’s Social Research Council conducted a study into company sales. Its findings revealed that:

- In 2011 Avon’s sales rose globally by only 1% but in South Africa by 30%;
- South Africa is the only Avon market where the majority of consumers are black; and
- Avon’s business model, developed over its 126-year history, allow it to keep product prices low since no money is spent on advertising.

According to respondents, the following trends have emerged:

- Increasing demand for healthy living and anti-ageing products; and
- Global demand for sustainably manufactured cosmetics containing natural ingredients.

As a result, a growing number of small operators such as Earthsap, Victoria Garden, Fresh & Free and Esse manufacture niche products. Procter and Gamble have invested in a multi-category manufacturing facility built on sustainable lines for local and export markets.

4.1.1. Corporate Actions

October 2013 - Revlon Consumer Products Corporation acquired The Colomer Group (TCG) for $665m. TCG has net annual sales of $500m and markets and sells products mostly to salons and other distribution channels not previously covered by Revlon.

January 2013 - Johnson & Johnson (China) Investment Ltd acquired Shanghai Elsker For Mother & Baby Co. Ltd, the "Chinese domestic leader in the baby skincare market". Johnson & Johnson will have access to a market where 18 million babies are born per annum.

September 2012 - The Lion Match company acquired a controlling interest in Beige Holdings for R45m, after securing 562 million shares held by the empowerment investment company Thebe Investment Corporation. Beige Holdings subsequently terminated its listing of preference shares on the JSE. The Lion Match company acquired the balance of shares 5.05%, that they did not already own.

May 2011 - Unilever acquired regulatory clearance to purchase the Alberto Culver Company for $3.7bn. With the acquisition it was reported that Unilever became the world leader in hair conditioning, the 2nd largest in shampoo and the 3rd largest in styling products.
March 2011 - Unilever sold its Sanex division to Colgate-Palmolive for €672m as required by the European Commission, discussed further under Competition. Unilever also acquired the Colgate-Palmolive laundry detergent brands in Colombia for US$215m.

4.1.2. Regulations

Although there are moves afoot to regulate South Africa’s fragrance, cosmetics and toiletries industry, currently it is self-regulated. Manufacturers are expected to adhere to the following.

The Cosmetic Compendium of the CTFA

The Cosmetic Compendium of the CTFA consists of a number of Codes of Practice and Standards developed by the association in consultation with the industry, government and the South African Bureau of Standards (SABS). Good manufacturing standards are defined and follow European regulations so cosmetics can be sold in the European Union. Under the self-regulation regime, the industry serves as its own watchdog, with companies having recourse to the Advertising Standards Authority (ASA) should they feel that a competitor is making unsubstantiated claims, using ingredients that are not permitted, or selling a substandard product.

Companies are encouraged to be certified by DQS or SGS as ISO 22716 (GMP) compliant. Certification by manufacturers provides customers with a guarantee of quality in a “high risk” sector due to the chemical compositions involved. The CTFA provides certificates of free sale to its compliant members, enabling them to export products that are produced, marketed and sold freely in the South African market.

On the 12 December the Brussels-based personal care association, Cosmetics Europe, issued an industry-wide notice to discontinue the use of the preservative Methylisothiazolinone (MIT) in leave-on skin cosmetics and personal care products. This is in response to recent clinical data showing adverse skin reactions to this ingredient. This ingredient is currently under investigation with the Scientific Committee on Consumer Safety. Until such time as the review is complete the CTFA has advised that MIT is not banned.

The Foodstuffs, Cosmetics and Disinfectants Act (no. 54 of 1972)

This act controls the sale, manufacture, importation and exportation of cosmetics along with foodstuffs and disinfectants.

Fragrance, cosmetic or toiletry products that claim medicinal ingredients need to be registered with South Africa’s Medicines Control Council.

New legislation affecting the sector is the Consumer Protection Act, which has sections relating to the quality of products in the market; consumer safety, marketing and communication to suppliers and customers (including labelling, advertising and promotions); and agreements (terms and conditions).

South Africa became the 12th signatory to the Nagoya Protocol in February 2013. The agreement regulates and facilitates “access to and the utilisation of the indigenous fauna and flora of a country as well as their associated traditional knowledge.” Animal testing of cosmetic products and their ingredients was finally banned completely within the European Union in March 2013. There are organisations such as BUAV, which founded Cruelty Free International, which aim to implement a global ban on animal tests for consumer products. The Leaping Bunny is a certificate awarded to companies and their products which are found to be produced without animal testing in all a company’s global operations.

4.1.3. Black Economic Empowerment

A steering committee was formed in 2003, spearheaded by Black Like Me founder Herman Mashaba, to establish a sector-specific BEE charter for the cosmetics industry. However, in February 2006 the committee decided that the newly released Department of Trade and Industry’s (DTI’s) scorecard would suffice. While there are no figures available on how transformation has progressed, anecdotal evidence suggests that the number of cosmetics and personal care companies under the management of black South Africans is increasing.

Amka Products, the result of a merger of two businesses represented by the Mashaba and Kalla families, is a successful example of BBEEE. It has grown into an integrated company with four manufacturing plants and 1,000 employees, which sells 400 products in 35 African countries. Amka Products is a Level 3 compliant company in which 65% of the company is owned by black women.
Beige Holdings structured its first BEE deal in 2005 when it acquired Quality Products (Pty) Ltd in partnership with Thebe Health Care. In February 2009 Thebe Investment Corporation (Pty) Ltd purchased 33.45% of Beige. In 2012 The Lion Match Company (Pty) Ltd purchased 562 million shares belonging to Thebe Investment Corporation for R45m, giving it a controlling interest in Beige Holdings. Beige Holdings is a Level 3 compliant BEE company.

At the end of March 2012 the National Empowerment Fund approved R50m for expansion by black-owned cosmetics retailer, Just On Cosmetics (Pty) Ltd. The cosmetics company which was established in 1991 now has 38 retail outlets across the Eastern Cape, KZN and the Free State. There are two warehouses, 36 vehicles, more than 50 suppliers and 600 employees. The expansion programme is likely to result in the creation of 200 jobs.

**WOW in-house staff to provide BEE levels for other companies**

### 4.2. Continental

Sub-Saharan Africa is considered the 'next consumer hotspot' for the following reasons.

- It is home to 821 million consumers.
- It is considered to be the 2nd fastest growing economy in the world after Asia-Pacific. The International Monetary Fund (IMF) projects growth in sub-Saharan Africa to reach 5.5% in 2014.
- The increasing pace of urbanisation has led to improved living standards and a growth in consumer expenditure.
- 70% of the population is under the age of 30.

Nigeria with its population of 170 million holds great potential. With 2013 nominal GDP at §510bn, Nigeria was officially recognised as Africa's largest economy and the world’s 26th largest economy in April 2014. International brands such as Ermenegildo Zegna, Porsche and Hugo Boss have all launched there, introducing products with darker skin tones in mind. Direct selling companies Avroy Shlain and Vanda are targeting the lower and middle income market providing attractively priced products. The launch of Avroy Shlain’s more affordable range, Avroy Pure has been met with success in the region.

The focus on Africa by multinational companies is apparent from the following information.

- Revlon reflected improved sales of 5% in its Europe, Middle East and Africa division in the 3rd quarter of 2013 compared to the same period in the previous year.
- Emerging markets represent 15% of MAC’s total business. The MAC global brand president, Karen Buglisi expects this figure to increase exponentially with the opening of 20 stores in sub-Saharan Africa in the next five years. The company is focusing on expansion in Kenya, Ghana, Cote d’Ivoire and Mozambique.
- Estée Lauder distributes its fragrances Tom Ford, DKNY and Michael Kors fragrances in Ghana. It will soon be introducing Clinique to the Nigerian and Mozambique markets.
- In 2011 L’Oreal opened two subsidiaries, one in Nigeria to look after the West and another in Kenya to be responsible for the East. Newly acquired brands Soft Sheen-Carson and Mizani are expected to be driving products of growth on the continent. L’Oreal acquired the Kenyan healthcare and beauty business Interconsumer Products in order to further expand its presence.

The following are South African companies that have an established footprint on the continent.

- Annique products are exported to Ghana, Nigeria, Tanzania, Zambia, Mozambique, Namibia, Botswana, Lesotho and Zimbabwe and Mauritius.
- Tiger Brands has a distribution network that span more than 22 African countries. It purchased 51% of the East African Group in Ethiopia in 2011 and the principal activities of this joint venture comprise the manufacture and marketing of various home and personal care products, biscuits, flour and pasta. The company reported "excellent growth" in the high-margin Home and Personal Care categories in 2013.
- African Extracts supply Spar, Checkers, Pick n Pay and Dischem locally and regionally to Zimbabwe.
- Avid Brands S.A. sells its products in Angola, Cameroon, East Africa and Ghana.

Direct selling companies take advantage of the benefits resulting from South Africa being part of the Southern African Customs Union which allows for the free interchange of goods between the member countries.

- Avroy Shlain and Vanda sell products in Namibia, Botswana, Lesotho and Swaziland.
- Sh’zen is found in Namibia and Botswana is looking to expand into Uganda, Kenya and Zambia. A respondent from Sh’zen mentioned that high costs in Zimbabwe because of duties on the products.
- Jean Guthrie operates in Zimbabwe and Namibia.
Avon has distributors in Morocco, Egypt, Tunisia, Zambia, Mozambique and Namibia.

Swedish company, Oriflame distributes in Kenya, Algeria, Egypt, Morocco and Sudan. In Kenya its intention is to provide employment for 100,000 agents. Oriflame has reduced prices on its range of over 400 natural cosmetics by up to 40% in an attempt to establish itself in this country.

SuzieBeauty is a Kenyan brand which has achieved success. Suzie Wokabi launched the SB line in retail outlets in 2011 and products are now stocked in 13 outlets in Nairobi, three in Mombasa and one in Kisumu. Their popularity is based on the affordability of the products at an average $10 each.

Challenges faced by companies operating in Africa include difficulties in delivering to rural areas and moving stock across borders which is subject to frequent delays. Sh’zen mentioned the excessive duties in Zimbabwe while Vanda has struggled to find “reliable partners who are financially strong with integrity”. Avroy Shlain MD, Justin Hewett mentioned that an advantage of focusing on rural areas is that there is less competition from the retail sector.

4.3. International

According to Statista the current global cosmetic market is worth €180bn. A report titled Global Beauty Care Products Industry 2012-2017: Trend, Profit, and Forecast Analysis estimates that the world market will grow by a compound annual growth rate (CAGR) of 3.4% per year over the five years so that the cosmetics market will be worth $265bn in 2017.

The international market is broken down into the following segments according to sales:

- Facial Skin Care – 27%;
- Personal Care – 23%;
- Hair Care – 20%;
- Make-Up – 20%; and
- Fragrance – 10%

The following trends are emerging in the global arena.

1. **An expanding middle class in developing nations is creating demand for premium cosmetics.** Rising consumer incomes and changing lifestyles drive sales in this industry as does increased awareness of luxury goods. China has had sustained performance for a number of years and is “the largest emerging cosmetic market in the world”. Statistics from the National Bureau of Statistics of China are shown below.

A noticeable trend in the Chinese market is the exponential growth in on-line sales. On-line sales in 2011 reached 37.26bn yuan up from 22.36bn yuan in 2010, a 66% increase. The premium segment has achieved the highest growth due to increasing disposable income and economic growth.

Cosmetic ‘giants’ Revlon and L’Oréal have acquired smaller companies specialising in ethnic hair products over the last decade and have spent large portions of their research and development budgets in this direction. This is in anticipation of
breaking into the largely untapped market of ethnic hair and cosmetic products. L’Oreal opened two subsidiaries, one in Nigeria and one in Kenya with flagship products Soft Sheen-Carson and Mizani brands while Estée Lauder, holding company of MAC, “is eyeing fastgrowing emerging markets, including Brazil, India and Turkey.”

2. **The increased demand for multi-functional products.** A new catch phrase, ‘Mixologiste’, coined by Mintel research, is being used to describe the trend where products are becoming multifunctional through the use of a range of technologies. Beauty balms or blemish balms (BB creams) have become popular and epitomise the Mixologiste trend. They do the job of five or six different products: moisturiser, primer, sunscreen, skin treatment, concealer, and foundation. A respondent mentioned that the BB cream concept is being transferred to hair products.

3. **Trend for natural and organic cosmetics.** Up until 2012 there was double digit growth in the natural and organic personal care brands but this dropped to single digit growth in 2012, which has led to a renewed focus on distribution channels. Specialist retailers still form the largest channel for sales at 40%. Germany is the largest market for natural and organic personal care products, while France has had the highest number of new product launches in recent years. Multinationals L’Oreal, Henkel and Unilever have introduced new organic lines for the French market.

4. **Male grooming market is growing.** A number of global surveys have concluded that the demand for male grooming products has increased and in certain segments has shown double-digit growth rates. A study by Kline & Company in 2012 cited that male grooming is no longer a niche market. The rise in grooming products is being met by an increased demand for toiletry electrical appliances.

**5. INFLUENCING FACTORS**

5.1. **Economic Environment**

During April 2014 growth forecasts for South Africa for the year were cut by major institutions, including Old Mutual Investment Group South Africa (Omigs) from 2.7% to 2.5%, the IMF from 2.8% to 2.3% and the Reserve Bank from 2.8% to 2.6%. The strikes in the platinum sector, energy supply constraints, and slow spending growth by consumers and businesses were mentioned as the main reasons for the projected decrease. The volatility of the rand makes imported products and ingredients more expensive and further interest rate hikes are expected before the end of 2014. According to one respondent, although economic factors are likely to reduce consumer spending in general, there may still be growth in spending on cosmetics because of the “lipstick effect” where hard-pressed consumers who cannot afford larger luxury purchases, replace them with smaller ones.

5.2. **Rising Input Costs**

The domestic industry is to a large extent, reliant on imported ingredients and products so as the rand weakens, input costs soar. Rising logistical and distribution costs are also a concern. The outsourcing of production to a 3rd party manufacturer has become more common as it allows brand owners to focus on the marketing of their products. Globally multinationals are also focused on cutting costs: Avon Products, for example, announced in December 2012 that 650 jobs worldwide would be cut in its efforts to return the company to profitability.

A small local manufacturer of Aloe Vera-based cosmetics, Aloway Natural Health Products has implemented some measures to save on costs. Piet Viljoen started cultivating the Aloe Ferox plant in Limpopo instead of relying on expensive Aloe imported from Spain, Mexico and the US and production from the factory now yields 400 000 litres of Aloe Vera per annum. The high costs of transporting product to the Western Cape, where a large market has developed, has resulted in the entrepreneur planting 10 hectares of Aloe Ferox in the province.

5.3. **Government Support**

The government’s Industrial Policy Action Plan (IPAP) aims to support the manufacturing industry, encouraging the development of SMMEs and helping existing concerns to become more competitive via the following initiatives.

- The Manufacturing Competitiveness Enhancement Programme (MCEP) provides support and encourages manufacturers to upgrade their production facilities. It has two programmes:
  - Production Incentive (PI) via the DTI; and
  - Industrial Financing Loan Facility via the Industrial Development Corporation (IDC).
The government recognised the growth and employment potential of the cosmetic manufacturing sector in its IPAP 2013/14-2015/16 document. The DTI conducted a research study of the local cosmetics sector in 2012 in an attempt to identify and address positive and negative factors for the growth and stimulation of the sector “for local and export markets penetration and job creation.” Chapter 5, section 5.3 highlights that government tax policies are a major hindrance to local cosmetic and personal care product manufacturers. Despite progress being made in the reduction of the Ad Valorem excise duty first introduced in 1969, the industry believes it continues to be a hindrance to competition in the international arena. The CTFA has over the years negotiated the rate from its starting point of 37.5% down to the current rate of between 5% and 7%.

5.4. Brand and Advertising

Manufacturers and local and international brand owners spend substantial sums of money on ensuring that their brand receives the correct method and amount of exposure to a designated target market.

- The MAC brand with its credo: All Ages, All Races, All Sexes has appealed to brand-conscious consumers, especially in Nigeria. During 2013 two stores were opened.
- Make-up houses have found that appointing an ambassador to promote their products is helpful. Iman cosmetics aimed at the ethnic market have appointed Khanya Mkangisa of soap opera, Zabalaza fame. African Extracts appointed Ariane Beumont, local goldsmith and jewellery designer, to be representative of natural and fresh beauty. MAC products have used Rihanna and Lady Gaga to be associated with their products.
- Connie Mashaba of Amka Products noted that in-store promotions were very helpful in reaching customers in the LSM 4 to 7 category.
- Unilever have found that putting sustainable living as central to their brands is paying off. Lifebuoy soap has achieved double-digit growth in its handwashing campaign. Their Brush Day and Night oral campaign which has reached 49 million people helped their Signal brand grow by 22% since 2008.
- To coincide with their 40th birthday celebrations, Avroy Shlain signed Noeleen Maholwana -Sangqu of 3Talk fame to be its ‘Confidence Ambassador’ for 2013. They wish to inspire more women to have the same “get up and go” which they believe epitomises the spirit of the many women who form the backbone of their direct selling organisation. Promotions also involved a mobile ‘Theatre Truck’ which travelled to major cities nationally.

5.5. Information Technology

Globally companies are increasing their e-commerce budgets as online shopping becomes more popular. In August 2013 Estee Lauder reported that the main reason behind the 84% increase in profit in the previous quarter was expansion into new markets facilitated by digital outreach. In October the company launched the MAC brand e-commerce platform in South Africa. Although the company does not expect that e-commerce here will not generate revenue immediately, it will help increase brand awareness in Africa. Another technology, to which MAC held exclusive rights for 6 months, is the MAC Shop Together concept. This technology allows friends to participate in a real-time, synchronized shopping session via an instant-messaging application.

L2 Digital IQ Index findings released on 21 November 2013 indicate the following:

- E-commerce in beauty grew by 29.1% with a third of beauty consumers researching online before purchasing; and
- In Africa for the period January 2012 to May 2012, 29% of all beauty purchasers researched online before buying.

5.6. Labour Resources

The DTI has recognised that there exists a greater need for more technical and marketing skills to develop and market products and has held a number of cosmetic industry workshops to encourage the development of SMMEs. Sally Gnodde of the CTFA has suggested that succession planning is not occurring quickly enough as the doyennes of the cosmetic industry are maturing. There are numerous examples such as Veronica Divine (Justine), Beryl Shlain (Avroy Shlain), Annette Blumberg (Estee Lauder), Maria Laughland (Ladine) and Jean Guthrie (Guthrie Cosmetics). However, current technical and notable entrepreneurial and marketing skills of a younger generation do exist in successful current companies such as Sh’ zen, Rain, Africology, Amber, Beauscience, i-Slices, and the creator of Oh So Heavenly, L.S. Enterprises.

There are a number of training courses and initiatives.

The Society of Cosmetic Chemists (COSCHEM) offers a Cosmetic Science Diploma which is a two year part time or correspondence course. A wide array of subjects is addressed including introductory topics such as Basic Chemistry and Cell Physiology as well as areas such as Hair and Skin Care.

The Direct Selling Association and the University of Johannesburg have developed a programme to enable students to build a small direct selling business. Durban University of Technology and the Tshwane University of Technology have introduced pilot modules, with more than 9600 students having completed the programme since 2002. Cosmetic companies Avroy Shlain and Avon-Justine are participants.

Amka has trained more than 5,000 people over the past 15 years through the Sofn’free Hair Care Academy in Johannesburg. The company also partakes in learnership initiatives and has earned accreditation from the Chemical Industries Education and Training Authority (Chieta).

5.7. Health and Environmental Concerns

As mentioned, there is a global trend for the use of products that do not contain harmful ingredients and which are being manufactured in a sustainable, environmentally friendly manner. Consumers are choosing to opt for products that do not contain parabens, petrochemicals, sulphates, phthalates, formaldehydes, synthetic preservatives, silicones, talc, genetically modified ingredients and animal by-products. African men and women have moved away from the use of damaging, unhealthy skin whitening creams and the demand for natural products has increased substantially.

The following are initiatives implemented by the multinational companies.

- Procter & Gamble announced in April that 45 of their facilities have achieved zero manufacturing waste to landfill. Over the last 5 years the company’s focus on finding worth in waste has resulted in $1bn of value being achieved. The company’s investment in a state of the art R1.6bn plant developed on sustainable lines is hoped to assist in their vision of being a nil waste plant locally. Unilever also has a Sustainable Living Plan which aims to halve its environmental footprint while doubling its business.

- L’Oreal was awarded the title of one of the ‘World’s Most Ethical Companies’ for 2013 by the Ethisphere Institute. In making its decision the institute looks at best practices in business ethics, governance, anti-corruption and sustainability. This is the 4th time that L'Oreal has made the list.

- Weleda won the Sustainability Leadership award and is also a member of the Union for Ethical Biotrade which has the by-line “sourcing with respect”.

- Sustainable packaging awards were won by French based Laboratoires Expanscience for the reduced packaging footprint of its baby-care products and Irish company, You Organic Skincare for its use of aluminium foil packaging pouches.

Locally Johannah Moriti established the first cosmetic company in South Africa called JOM Cosmetics to manufacture natural chemical-free products that do not alter the structure of ethnic hair. The company was recently awarded the EU Ecolabel of environmental excellence, an award for products and services that meet high environmental standards throughout their life cycle. According to Moriti they are the only cosmetic company worldwide to have achieved this accolade. Locally she also won an award in the SMEs category of South Africa’s Most Influential Women in Business and Government Awards for 2012. JOM Cosmetics is also active in Namibia, Swaziland, Zambia and Spain. Another local entrepreneur Adolphina Setsena won a prize in the South African Breweries Foundation Social Innovation Awards 2013. She worked with a scientist and developed a product known as SNE54 Complex using clay and plants as ingredients, based on the remedies handed down by her grandmother and aunt.

Phytotrade Africa provides certification to companies such as Esse which promote economic development of rural areas as well as the sustainable commercialisation of indigenous plant species such as Kigelia Africana, the Baobab, the Kalahari melon, Mongongo, Marula and the African sausage tree. There are a number of cosmetic companies in South Africa which utilise the indigenous Aloe Vera, including House of Aloes which uses a patented process to extract ingredients from the Aloe Vera leaf and Aloway Natural Health Products mentioned earlier.

6. COMPETITION

In a market where 90% of sales are derived by global brands produced by multinationals or companies producing under licence, local manufacturers compete for the balance of the market. According to one respondent the credo ‘outsource what you can” applies. Brand owners contract manufacturers to source the necessary raw materials and manage the complex manufacturing process. This enables brand owners to have locally manufactured products and allows them to focus on marketing and sales activities. Those companies that
do not manufacture locally, either directly or through the use of contract manufacturers import their products and the significant presence of imported products on the local market is a source of great competition for local cosmetic manufacturers.

After Amka bought a 49.9% stake in Black Like Me in 2004, sales of Black-Like-Me products increased because of Amka’s distribution channel nationally and its presence in 39 African countries. A further competitive advantage was increased buying power. As the ethnic hair product market has grown, it has become much more competitive and visits to salons to demonstrate new products and techniques have become important ways of retaining and growing market share.

6.1. Barriers to Entry

A substantial barrier to entry to setting up manufacture is the capital costs. As a result there is a tendency for local brand owners to outsource manufacture to third parties. A further advantage from this method of manufacture is the predictability that comes from paying a unit cost per item. The unit cost will include the variables of labour, electricity, raw materials and packaging already factored in, which allows brand owners to focus on the marketing of their product.

For local manufacturers, it is difficult to enter a market dominated by multinationals. However, the local entrepreneurs mentioned earlier have managed this, mainly by focusing on niche products made from natural products. Another local success story is that of Kerryne Krause-Neufeldt of I-Slices Innovation whose eye care product has been accepted worldwide.

6.2. Research, Development and Innovation

In the market research and development is undertaken by:

- Contract manufacturers, who research, formulate and test new products on behalf of brand owners; and
- Multinationals, who have large R&D budgets and conduct research on a global level. Manufacturers who operate under licence similarly benefit from research done by the mother company. Unilever has six laboratories situated across the world while L’Oreal has 22 research centres in five regional hubs worldwide involving 3817 employees. Unilever entered into a five-year partnership with Ampere Life Sciences in 2009 so it could access that company’s anti-ageing Digital Biology™ technology. L’Oreal develops 5000 formulas annually, filed 611 patents in 2012 and allocated €791m for dermatological research in the same year.
- Locally the development of the eyeSlices® products by the company I-Slices Innovation was made possible with the assistance of the Council for Scientific and Industrial Research (CSIR) and the DTI. The patented disposable eye treatment pads are the result of the innovation and drive of Kerryne Krause-Neufeldt, who at 22, started out as an importer and distribution agent for a Swiss cosmetics house.

7. SWOT ANALYSIS

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>• Manufacture is of a high standard, is self-regulated and supplies both local and export markets.</td>
<td>• Industry domination by large multinationals.</td>
</tr>
<tr>
<td>• An innovative sector.</td>
<td>• High percentage of imported final products as well as reliance on imported inputs.</td>
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<tr>
<td>• Locally manufactured products have a high level of international acceptance.</td>
<td>• The imposition of the Ad Valorem Tax.</td>
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<table>
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<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Growing black middle class locally and in the rest of African.</td>
<td>• Reduced consumer spending in a worsening economic climate.</td>
</tr>
<tr>
<td>• Growing emphasis on environmentally friendly products and practices.</td>
<td>• Rising input costs. Exchange rate volatility.</td>
</tr>
<tr>
<td>• Government support and incentives via IPAP.</td>
<td></td>
</tr>
<tr>
<td>• Growing online customer base with increased opportunities for e-commerce sales.</td>
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</tr>
</tbody>
</table>
8.  FUTURE OUTLOOK

As the key drivers of the cosmetic industry are increased GDP and improved living standards, just below moderate overall growth is likely for the South African cosmetics sector according to a respondent from CTFA. The growing black middle-class and growing demand from regional markets also hold promise for a sector that is supported by government policies. Global demand for multifunctional products and men's grooming products is expected to increase and the escalation of e-commerce as a distribution channel looks set to continue. More competition is likely as overseas companies use South Africa as a launching pad into sub-Saharan Africa where growth of 5.5% is expected in 2014. Regional spending power is predicted to reach $2-trillion by 2020, thus presenting opportunities “for companies with the right goods and services and an appropriate strategy.”

9.  INDUSTRY ASSOCIATIONS

The Cosmetic, Toiletry and Fragrance Association of South Africa (CTFA)
The CTFA has been servicing the cosmetic business sector since it was established in 1994 and represents and promotes the interests of its 153 member companies with government and other bodies. It oversees the setting and updating of industry regulations and standards.
Tel No.: +27 11 795 4272
Fax No.: +27 11 794 3039
Email: info@ctfa.co.za
Website: www.ctfa.co.za

The Cosmetic Export Council of South Africa (CECOSA)
CECOSA is a Section 21 non-profit organisation which was re-established in 2011. It has a public private partnership with the Department of Trade & Industry. According to the CTFA 2012 Annual Report there were a total of 35 members in the Councils 2nd year of operation, including 25 SMMEs.
Tel No.: +27 11 795 4272
Fax No.: +27 86 730 0840
Email: adele@cecosa.co.za
Website: http://www.cecosa.co.za

Chemical and Allied Industries Association (CAIA)
CAIA provides assistance to the local chemical and allied industries in their endeavours to become efficient, productive and competitive.
Tel No.: +27 11 482 1671/2
Fax No.: +27 11 726 8310
Email: caia@iafrica.com
Website: http://www.caia.co.za

The Society of Cosmetic Chemists South Africa (COSCHEM)
COSCHEM is a professional society for scientists and other individuals involved in the cosmetic and associated industries. It provides a platform for the exchange of ideas, with the ultimate aim of facilitating education in the sector.
Tel No.: +27 11 794 9338
Fax No.: +27 86 686 9674
Email: coschem@iafrica.com
Website: www.coschem.co.za

Permanent Cosmetic Association of South Africa (PCASA)
A professional association, the PCASA represents cosmetic professionals in the area of permanent cosmetics. The local body falls under the auspices of the international Society of Permanent Cosmetic Professionals (SPCP).
Website: www.pcasa.org.za

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