

DIGITAL TRANSFORMATION AND SUSTAINABILITY STRATEGIES IN THE INDONESIAN COSMETICS INDUSTRY: PORTER'S FIVE FORCES OF COMPETITIVE DYNAMICS AND GROWTH OPPORTUNITIES

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Abstract

This article provides an overview of the analysis of the cosmetics and personal care industry in Indonesia. The cosmetics industry in Indonesia is growing rapidly in line with increasing public awareness of self-care, changes in lifestyle, and the advancement of digitalization. The presence of social media and e-commerce has also influenced consumer patterns, particularly among the younger generation, who constitute the primary market in this industry. The research method employs a qualitative descriptive approach using secondary data analysis sourced from industry reports, academic publications, and various references related to the development of the cosmetics industry in Indonesia. In analyzing the cosmetics industry, the Porter's Five Forces model was applied, encompassing buyer power, supplier power, the threat of new entrants, the threat of substitute products, and the level of competition among firms. Additionally, macro-environmental analysis was employed to understand external factors influencing the industry. The results of the analysis indicate that this industry has a high level of attractiveness with significant market opportunities; however, it also faces intense competition, low consumer loyalty, and a reliance on imported raw materials. Therefore, companies need to prioritize innovation, digital strategies, and brand strengthening to maintain their competitiveness.

Keywords: Cosmetics Industry, Personal Care, Porter's Five Forces, Macro Environmental Analysis

Introduction

According to a report from Kontan.co.id (2024), the cosmetics and personal care industry in Indonesia has shown significant growth in recent years. This growth is driven by the increasing public awareness of self-care and skin health, as well as lifestyle changes that make skincare a form of self-care. In addition, the role of social media also expands access to information and significantly influences consumer purchasing decisions. The dominance of the younger generation, especially Generation Z, as the main consumers, is also an important factor in the development of this industry. Generation Z is known for being digital savvy and very active in accessing information thru social media, which influences their preferences and consumption behavior (Suwandi & Balqiah, 2023). This shows that cosmetic and personal care products have become a part of the modern lifestyle of Indonesian society. Based on the IDX Channel report (2024) citing data from the Ministry of Industry of the Republic of Indonesia, the number of entrepreneurs in the cosmetics industry increased by approximately 43% during the period 2020-2023. This increase indicates that the cosmetics industry has high appeal and significant business opportunities. In addition, this industry also contributes to the national economy thru job creation and the development of small and medium enterprises (Kementerian Perindustrian Republik Indonesia, 2024).

According to Ferdinand and Ciptono (2022), the Indonesian cosmetics industry has a high level of industry attractiveness, supported by the large domestic market and continuously increasing demand. However, this industry is also characterized by intense competition among business players, both from local and global companies (Kemala & Kartasasmita, 2024). In practice, this competition involves various global brands such as L'Oréal, Unilever, and Mandom, as well as local brands like Paragon Technology and Innovation, Mustika Ratu, and Martina Berto that are able to compete in the domestic market.

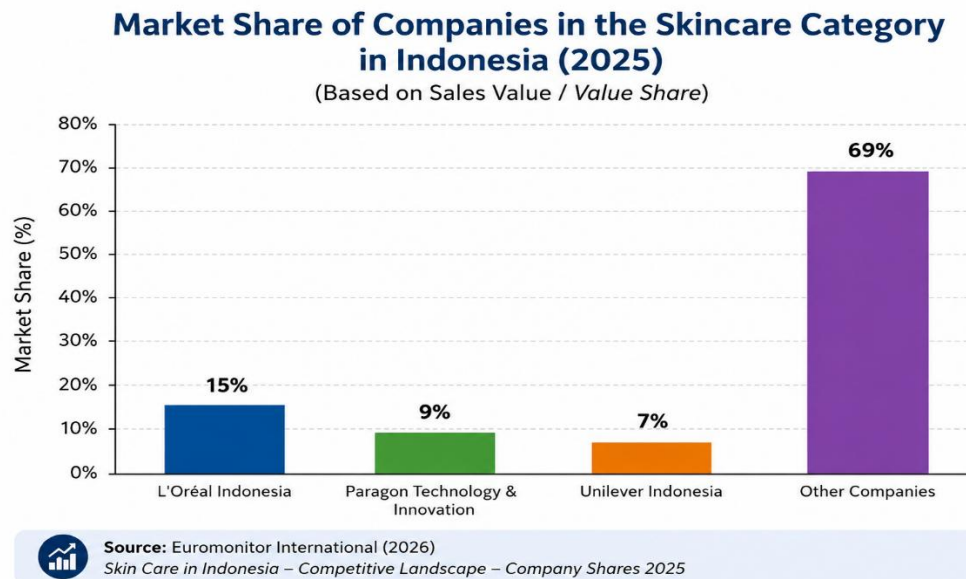


Figure 1. Market Share of Companies in the Skincare Category in Indonesia in 2025

The advantages of local brands generally lie in the utilization of cultural values, halal certification, and more competitive pricing strategies that align with Indonesian consumer preferences (Wulandari et al., 2024). Thus, the cosmetics and personal care industry in Indonesia is a dynamic and competitive industry with significant growth opportunities but also faces various strategic challenges. Therefore, a comprehensive analysis of the macro environment, industry competition structure, and key success factors is essential to understand the direction of this industry's development in greater depth.

Method

This research uses a qualitative descriptive approach by utilizing secondary data obtained from industry reports, academic publications, and various literature sources relevant to the development of the cosmetics industry in Indonesia. The analysis was conducted using the Five Forces Porter framework to identify the level of industry competition, as well as a macro-environment analysis (political, economic, social, technological, and demographic) to understand the external factors affecting the industry. This approach was chosen to provide a comprehensive overview of the opportunities, challenges, and attractiveness of the cosmetics industry in Indonesia.

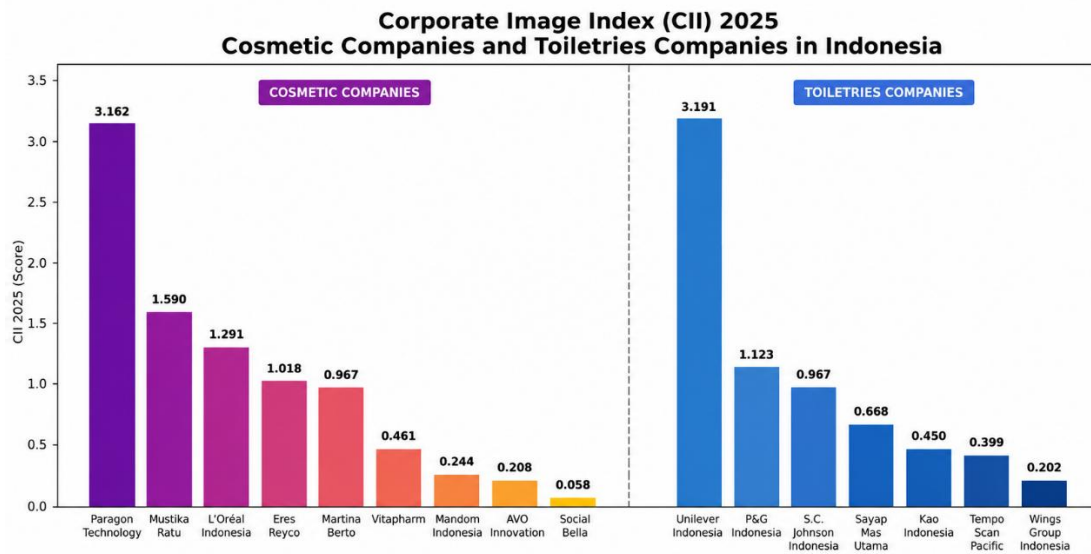
Results and Discussion

Development of the Cosmetics Industry in Indonesia

The cosmetics and personal care industry in Indonesia has experienced rapid growth in recent years. This growth is driven by the increasing public awareness of skin health, appearance, and the importance of halal values in the products used. According to Kemala and Kartasasmita (2024), the aspects of halal and brand integrity play an important role in increasing consumer trust. In addition, halal cosmetic products are not only viewed as a religious necessity but also as indicators of product quality and safety (Putri et al., 2024). From a marketing perspective, the development of digital marketing thru social media and e-commerce has become a key strategy in the cosmetics industry. Hapsara et al. (2021) explain that social media allows companies to build more interactive communication and increase engagement with consumers. Along with the development of technology, innovation is also advancing thru the utilization of Artificial Intelligence (AI) and Augmented Reality (AR). These technologies enable product personalization and introduce virtual try-on features that enhance the consumer experience (Adawiyah et al., 2024). This is also supported by the findings of Dhianita and Rufaidah (2024), which state that the use of virtual try-on can increase consumer trust and purchase intention.

In addition, the increasing awareness of environmental issues encourages companies to adopt sustainability strategies, such as the use of eco-friendly materials and recycled packaging. Consumers today not only consider product quality but also the ethical aspects and corporate social responsibility (Dewi & Sari, 2023). In practice, the Indonesian cosmetics industry is marked by competition between global and local

companies. Local companies like Paragon Technology and Innovation are able to demonstrate strong competitiveness, while multinational companies like Unilever Indonesia and L'Oréal Indonesia have advantages in scale and global innovation.



Source: Marketing Magazine (2025) - Corporate Image Award 2025

Figure 2. Corporate Image Index (CII) of Cosmetic and Toiletries Companies in Indonesia in 2025

The 2025 Corporate Image Index data shows that Paragon Technology & Innovation achieved the highest corporate image score compared to other cosmetic companies, while PT Unilever Indonesia Tbk ranked highest in the toiletries category. Although classified in the toiletries category in the award, Unilever is also one of the main companies in the cosmetics and personal care industry due to its product portfolio, which includes cosmetics, skincare, hair care, and personal hygiene products. Mustika Ratu and L'Oréal Indonesia also have a strong corporate image. These findings indicate that local companies are capable of building consumer trust, thereby achieving high competitiveness in the Indonesian cosmetics market. One example of the success of a local brand is Wardah from PT Paragon Technology & Innovation, which has managed to become a market leader thru strong branding strategies and an understanding of domestic consumer needs (Wulandari et al., 2024).

Macro Environment Analysis

a. Political and Legal Factors

Government support thru regulations, particularly halal certification, plays a crucial role in strengthening the cosmetics industry in Indonesia. This policy enhances consumer trust and the competitiveness of market products (Nabilah et al., 2024; Fadhila, 2025). However, challenges still arise in monitoring illegal products and excessive claims on digital platforms that can harm consumers (Suhardi & Kusumaningsih, 2025).

b. Economic Factors

The development of e-commerce provides consumers with easy access to cosmetic products and expands market reach. This has a positive impact on the increase in purchasing decisions (Mathori, 2024). However, dependence on imported raw materials remains a major challenge as it can affect the stability of production costs (Ferdinand & Ciptono, 2022).

c. Demographic Factors

The dominance of Generation Z as the main consumers presents a significant opportunity for industry growth. This generation is characterized by being digital savvy and highly active in accessing information thru social media (Suwandi & Balqiah, 2023). Additionally, the level of religiosity also influences preferences for halal products, which are considered safer and more trustworthy (Putri et al., 2024).

d. Technology Factor

Digital technology plays a crucial role in transforming business strategies in the cosmetics industry. The use of AI and AR enables product personalization and enhances the consumer experience (Adawiyah et al., 2024). This technology has also been proven to increase consumer trust and purchase intention (Dhianita & Rufaidah, 2024).

e. Social and Lifestyle Factors

Lifestyle changes that emphasize self-care and increasing environmental awareness drive demand for safe and sustainable cosmetic products. Consumers have become more critical of ingredient compositions and production practices (Dewi & Sari, 2023).

Based on the results of the macro-environment analysis, it can be concluded that the Indonesian cosmetics industry is in a relatively conducive external environment for growth. Support for halal regulations, the development of digital technology, the dominance of Generation Z, and the increasing trend of self-care are factors that enhance the growth opportunities for the industry. However, companies still face challenges such as dependence on imported raw materials, rapid changes in consumer preferences, and increasing demands for sustainable business practices. Therefore, the company's ability to adapt to the dynamics of the external environment becomes an important factor in maintaining competitiveness.

Porter's Five Forces Analysis

Porter's Five Forces Analysis is used to understand the structure of industry competition and the potential for long-term profitability (Porter, 1980).

Tabel 1. Porter's Five Forces Analysis

Competition Factor	Strength Level	Brief Description	Company
Threat of New Entrants	Moderate	Large market, but strict regulations and high research capital needed.	PT Royal Pesson Indonesia, thru the brand Somethinc, successfully penetrated the market without a large distribution network by using digital strategies and local product differentiation.
Threat of Substitutes	Quite Strong	Natural and imported products have become alternatives.	PT L'Oréal Indonesia and PT Paragon Technology and Innovation face threats from The Ordinary (DECIEM Inc.), Innisfree (Amore-pacific), and local natural skincare products.
Bargaining Power of Suppliers	Moderate	Dependency on raw material imports	PT Paragon Technology and Innovation and PT Unilever Indonesia Tbk have internal research capabilities and strategic collaborations with global suppliers.
Bargaining Power of Buyers	Strong	Critical consumers, low loyalty	L'Oréal Indonesia and PT Mustika Ratu Tbk are adapting their customer engagement strategies thru social media and educational campaigns.

Competition Factor	Strength Level	Brief Description	Company
Rivalry Among Competitors	Very Strong	Local and global competition is very fierce	PT Paragon Technology and Innovation, PT Unilever Indonesia Tbk, PT L'Oréal Indonesia, PT Mandom Indonesia Tbk, and PT Martina Berto Tbk are in fierce competition in the mass market and premium segments.

Source: Compiled from various literatures (2023-2025)

a. Threat of New Entrants (Moderate)

Although the industry has a large market, newcomers face obstacles such as capital requirements, regulations, and the importance of building brand trust (Kemala & Kartasasmita, 2024). However, digital marketing opens up opportunities for new entrepreneurs to enter the market (Hapsara et al., 2021). This is reflected in the success of PT Royal Pesona Indonesia thru the Somethinc brand, which has been able to gain market share by utilizing digital media, collaborating with influencers, and implementing product differentiation strategies that align with consumer preferences. These findings indicate that although there are entry barriers, the advancement of digital technology can reduce some of these barriers, allowing new entrants to still have opportunities to compete effectively.

b. Threat of Substitute Products (Quite high)

Alternative products such as natural skincare and imported products provide consumers with more choices. For example, PT L'Oréal Indonesia and PT Paragon Technology and Innovation face threats from imported products such as The Ordinary (DECIEM Inc.), Innisfree (Amorepacific), as well as local natural skincare products that offer similar benefits. Nevertheless, products with official certification, guarantyd quality, and brand strength remain advantages that can enhance consumer trust (Putri et al., 2024). This shows that the threat of substitute products encourages companies to continuously innovate their products, maintain quality, and strengthen brand differentiation so that consumers do not easily switch to other alternatives.

c. Supplier Bargaining Power (Moderate)

The availability of global suppliers provides alternatives for companies, but dependence on imported raw materials remains a challenge (Ferdinand & Ciptono, 2022). For example, large companies such as PT Paragon Technology and Innovation and PT Unilever Indonesia have the capability to establish strategic partnerships with global suppliers, thereby minimizing the risk of supply disruptions. However, such conditions may not be achievable by small-scale cosmetic companies, making the development of local raw materials an important strategy to enhance industry resilience.

d. Bargaining Power of Buyers (Strong)

Consumers have wide access to information thru social media and digital reviews, making them more critical in choosing products (Print et al., 2025). This has led to low brand loyalty (Suwandi & Balqiah, 2023). This condition encourages companies like PT L'Oréal Indonesia and PT Mustika Ratu Tbk to strengthen customer engagement thru social media, educational campaigns, and more intensive interactions with consumers. This shows that companies are no longer competing solely thru product quality, but also thru their ability to build long-term relationships with customers to maintain brand loyalty.

e. Inter-Company Competition (Very Strong)

The competition between local and global companies is very intense, especially in terms of product innovation, marketing strategies, and pricing (Kemala & Kartasasmita, 2024). This competition is evident from the strategies implemented by PT Paragon Technology and Innovation (Wardah), PT Unilever Indonesia Tbk, PT L'Oréal Indonesia, and PT Martina Berto Tbk, which continuously introduce product innovations, strengthen halal certification, utilize influencer marketing, optimize digital campaigns, and develop technologies such as virtual try-on. These findings indicate that competitive advantage in the cosmetics industry is no longer determined solely by the scale of the company, but also by the ability to create product differentiation and provide an excellent customer experience.

Overall, the Five Forces Porter results indicate that the Indonesian cosmetics industry has a high level of attractiveness due to strong market demand growth and significant innovation opportunities. However,

this attractiveness is counterbalanced by the high intensity of inter-company competition and the strong bargaining power of buyers due to low brand loyalty and the abundance of product alternatives. Thus, the company must not only offer quality products but also build differentiation, strengthen brand image, and enhance customer experience thru innovation and digital transformation.

Driving Forces

Changes in consumer behavior have become one of the main factors driving the development of the cosmetics industry. Consumers are increasingly paying attention to the health, safety, and sustainability aspects of products (Putri et al., 2024). Moreover, digitalization and social media have transformed the interaction patterns between companies and consumers to be more interactive (Hapsara et al., 2021). Technological innovations such as AI and AR also drive product personalization and enhance consumer experience (Adawiyah et al., 2024). Government regulatory support, particularly regarding halal certification, also strengthens the competitiveness of the national cosmetics industry (Nabilah et al., 2024).

Findings from the macro environment and Five Forces analysis indicate that there are several key factors that consistently drive changes in the structure of the Indonesian cosmetics industry. These factors can further be identified as driving forces that determine the direction of industry development in the future.

Key Success Factors

The success of the cosmetics industry is determined by several key factors. Sustainable product innovation is key to meeting the ever-changing needs of consumers (Ferdinand & Ciptono, 2022). In addition, brand strength and consumer trust also play a crucial role in enhancing loyalty (Putri et al., 2024). Digital transformation allows companies to enhance marketing effectiveness and create more personalized customer experiences (Adawiyah et al., 2024; Hapsara et al., 2021). Collaboration between companies, SMEs, and research institutions also plays a role in enhancing the industry's competitiveness (Abdurachman et al., 2022). Based on the level of industry competition, changes in consumer behavior, and technological developments that have been previously identified, there are several factors that determine the success of companies in winning the competition in the Indonesian cosmetics industry.

Opportunities and threats

Opportunities

The Indonesian cosmetics industry has great potential due to the support of a large domestic market and the increasing public awareness of self-care (Putri, 2023). The trend of halal and natural cosmetics also becomes a competitive advantage supported by government policies (Utari & Tsurayyah, 2023). In addition, digitalization provides opportunities for SMEs to expand their markets at a lower cost (Hapsara et al., 2021).

Threats

Global competition has become a major challenge with the entry of various international brands (Susanti & Malik, 2023). Additionally, rapid changes in consumer trends have led to low brand loyalty (Farida & Yuliana, 2022). Another threat comes from illegal products and dependence on imported raw materials (Kashuri et al., 2025). By considering these opportunities and threats, cosmetic companies need to implement adaptive strategies. Opportunities arising from market growth and digitalization must be leveraged thru product innovation and the expansion of digital marketing, while threats such as high competition and changing consumer preferences need to be anticipated thru strengthening brand differentiation, improving product quality, and developing long-term relationships with customers.

Conclusion and Recommendations

The cosmetics and personal care industry in Indonesia has significant and sustainable growth potential. This growth is supported by lifestyle changes, increased awareness of self-care, and the development of digital technology. However, this industry also faces various challenges such as global competition, low consumer loyalty, and dependence on imported raw materials. Therefore, companies need to optimize innovation, digital strategies, and the utilization of local resources to enhance long-term competitiveness. Some recommendations that can be provided include:

1. **Enhancing Product Innovation Based on Local Ingredients.** The company needs to develop products based on local natural ingredients such as spices, aloe vera, and coconut. This is important to reduce dependence on imported raw materials while strengthening the identity of local products that have added value in both domestic and global markets.
2. **Strengthening Digital Transformation and Technology Utilization.** Companies need to optimize the use of technology such as digital marketing, Artificial Intelligence (AI), and consumer data analysis. This is in line with the increasingly digital consumer behavior trends and can enhance marketing effectiveness and customer experience.

3. Developing Sustainability Strategies. Companies are advised to implement environmentally friendly practices, such as using recycled packaging and materials that are safe for the environment. This is important because consumers today are increasingly considering ethical and sustainability aspects in their purchasing decisions.
4. Strengthening Industry and Research Collaboration. Collaboration between companies, SMEs, and research institutions needs to be enhanced to drive innovation and improve industry competitiveness. This synergy can accelerate product development and expand market access.
5. Improving Product Oversight and Standardization. The government and industry players need to strengthen oversight of illegal products and ensure product quality and safety standards. This is important to maintain consumer trust and enhance the credibility of the national cosmetics industry.

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