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The impact of the emerging trends on the makeup market in Europe

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The makeup market in Europe has experienced consistent growth in the last few years with people encouraged to use makeup products on the daily basis. The market has benefitted from increased demand and interest on makeup products with offering the consumers seasonal product launches and innovations constantly. The market is expected to maintain its growth, however, there are macro environmental factors that are due to changes, those of which may influence the growth of the market in the next 1-5 years.

This paper aims to analyse the makeup market in Europe in relation to its emerging macro environmental factors, the main objective is to identify the trends that impact the market and to analyse the outcomes that those might carry in the medium-term in order to develop future strategies.

The research was conducted by using analysis tools that help understanding the outlines of the market, the nature of the trends and their impact on the market. Finally, an analysis was conducted to imagine future scenarios of the trends in order to forecast their future outcomes and to determine how to react to those effectively. This research found a number of factors, some of which have certain outcomes, such as, the increased interest and demand on makeup products, and other factors that have uncertain outcomes, such as, Brexit. The uncertain outcomes were focused on at the end of the analysis in order to gain better insights on all of the outcomes those may carry.

Overall, the emerging macro environmental trends can impact the growth and the future performance of the makeup market, thus, understanding the outcomes of these changes is crucial for companies to plan future strategies in order to manage risks.

Keywords
Cosmetics, makeup market, competitive intelligence, market analysis, trend analysis, European market, emerging trends, trends’ influence, scenarios, future strategies.
Contents

1 Introduction
   1.1 Research question: Formation of thesis 1
   1.2 Thesis limitations and future research 2

2 Literature review
   2.1 Market research 4
      2.1.1 Overview of the European market 4
      2.1.2 Anatomy of the European makeup market 5
      2.1.3 Definition of makeup and its categories 6
      2.1.4 Leading makeup companies in Europe 8
      2.1.5 Definitions and typology of trends 10
   2.2 Analysis methods 10
      2.2.1 Industry analysis: Porter’s five forces model 11
      2.2.2 Macro environmental analysis (STEEP) 12
      2.2.3 Marketing mix 4 P’s 13
      2.2.4 Scenario analysis 14

3 European makeup market analysis
   3.1 Industry analysis: Porter’s five forces model 15
      3.1.1 Threats of new entrants 15
      3.1.2 Supplier power 17
      3.1.3 Buyer power 17
      3.1.4 Threats of substitutes 17
      3.1.5 Power of rivalry 18
   3.2 Macro environmental factors analysis (STEEP) 18
   3.3 Marketing Mix – Company case: L’Oréal 29

4 The impact of the trends on the market
   4.1 Scenario analysis of the makeup market 32
   4.2 Strategy for the company case: L’Oréal 35

5 Conclusion 38

References 39
List of Figures and Tables

Figure 1: Revenue in the cosmetics market in million USD (Europe) (Source: Statista 2018)  5
Figure 2: L’Oréal Acquisition of brands over years. (Source: L’Oréal 2017)  9
Figure 3: Porter's five forces model – matrix of the makeup market in Europe  15
Figure 4: The relationship between cost and quantity for companies 'economies of scale' (Source: Corporate Financial Institute 2018)  16
Figure 5: STEEP matrix of the makeup market in Europe  19
Figure 6: Interest in makeup over time (Source: Google Trends 2018)  19
Figure 7: Average revenues per capita in the cosmetics market in Europe (Source: Statista, 2018)  20
Figure 8: Beauty-related content views on YouTube from 2009 to 2017 (in billions) (Source: Statista, 2017).  21
Figure 9: Importance of personal care and cosmetic products in building self-esteem (by age groups in %) (Source: Cosmetics Europe 2017: 16).  22
Figure 10: Number of virtual reality headmount unit sales in Western Europe from 3rd quarter 2015 to 2nd quarter 2016 (in 1,000) (Source: Statista 2018)  23
Figure 11: Employment rate, age group 20-64, 2016 (%) (Source: Eurostat 2016)  25
Figure 12: Average per capita spending on cosmetics in 2017 by country (Source: Statista 2018)  25
Figure 13: Annual temperature increase globally from 1880 to 2016 (Source: Statista 2018)  27
Figure 14: Annual number of foreign direct investment projects across Europe 2012-2016 (Source: Statista 2018)  29
Figure 15: Scenario matrix of the makeup market in Europe  34

Table 1: Market volume of cosmetics and personal care in Europe in 2016, by country (in million euros) (Source: Statista 2017)  6
Table 2: Europe makeup market category segmentation, $ million, 2016 (Source: Market Line 2017)  7
Table 3: Europe makeup market share, % share, by value, 2016 (Source: Market Line 2017)  9
1 Introduction

Coloured cosmetics have been around since the ancient times as people have always tried to find ways of appearing more appealing to others. Both males and females used makeup in the ancient Egyptian times, with carvings and paintings showing that they used colours to enhance their looks. In addition, women in the past burned matches and applied the soot to their eyes and used berries on their lips (Gardner 2017). The ancient Greeks used white lead on the faces to look pale, because pale skin was a sign of wealth, and they used different colours on their lips and eyes (Lambert 2017). The interest in searching for products that could enhance one’s facial features continued into the modern age.

The makeup market in Europe has seen increased revenues in the last few years, with people encouraged to use makeup products on a daily basis by social media and other types of media such as beauty magazines and newspapers. The market has benefitted from this increased interest among consumers, and it has been consistently providing new innovations as well as seasonal product launches.

The market is influenced by various external factors, most of which cannot be controlled by the market, and thus it can only adapt to them. Those factors can influence the market in several ways, for instance, in purchasing power, the behaviour of consumers, the political situation in the European Union (EU), economic stability, technological development, and ecological factors. Those factors are subject to change over time, and these changes can influence the market in negative, positive, or neutral ways. Thus, companies must be aware of the factors that may influence their future performance, in order to prevent surprises in the future.

1.1 Research question: Formation of thesis

The thesis idea emerged when the author was collecting literature on the makeup market due to the author’s own interest in makeup and beauty products. The decision was taken to seek an understanding of and insights into this market. A question arose during the process of collecting the data: why is the makeup market growing in Europe right now?
After seeking answers through research, a hypothesis arose that there were several environmental factors behind the current growth. Further research revealed many factors that could be influencing the future direction of the makeup market, especially in Europe. The author chose to focus on the European market because this region has the largest personal care and cosmetics market in the world (Cosmetics Europe 2018). There are many trends and uncertainties surrounding this large market, and it is worthwhile analysing these factors in order to gain better insights into the future.

After some initial research, it was found that there are a number of types of trends that influence the market, the author decided to focus on the emerging trends because those trends appear in the market resulting extensive changes and shifts in the near future. Thus, the following research question was formed: what is the impact of the emerging trends on the makeup market in Europe? How can the market react to them? This thesis aims to analyse the makeup market in Europe and the factors that may influence its growth and performance in the future by seeking findings that would reflect the research aim. The objective of the research is to identify the factors that cause market shifts, to analyse their impact, and then to forecast the outcomes in order to plan relevant strategies for companies in the market.

This paper starts with the theoretical framework introducing the makeup market in Europe and the analysis methods. After this it focuses on the analytical framework by analysing the market, trends, and the marketing mix strategy of the leading cosmetics company in Europe ‘L’Oréal’. Finally, the paper focuses on the analysis of the outcomes of the changes, and the identification of future strategies for L’Oréal. This company is used as a representative of the other companies in the market.

1.2 Thesis limitations and future research

The limitations of this thesis are rooted in the methodology used to analyse the market and its trends. The analysis was focused on macro environmental factors and thus did not create a whole picture of the market. The analysis instead put a spotlight on the external issues that could occur, and consequently the results only provide solutions and strategies in relation to those external elements.

Another limitation of the analysis method was the choice of a single type of trend, that being medium-term emerging influences. Therefore, a more in-depth analysis of other
types of trends, such as mega trends and branching trends, would give more insight into
the future of the makeup market.

A practical use of this thesis could be facilitating an understanding of the relationship
between trends in the market and their influence on its future performance. However,
since this research covered a specific timeframe, the factors considered may become
out-dated in a short period of time, and the analysis would thus need to be updated to
produce useful results.

This thesis could form a starting point for further research into trends in the makeup
market in Europe. This could be done by widening its timeframe, identifying the other
types of trends that cause shifts in the market, and using different tools to search these
trends and their impacts. To build on the findings of the analysis and identify practical
implications for the future, primary data could be collected by interviewing representa-
tives from leading companies about the shifts in demand for products, or by conducting
a survey regarding trends and consumer knowledge and opinion of those changes.
2 Literature review

The thesis development began with a literature review and the development of a theoretical framework. Research was conducted to find relevant literature and analysis methods in order to create the foundations for this thesis. The literature was collected carefully by viewing primary and secondary information sources such as books, articles and journals written by experts and statistical information platforms. The makeup market’s leading companies’ websites and annual reports were visited in order to build a better understanding of their position in the market. A search of the market trends was conducted by reviewing books, web-mining, and collecting relevant news, journals, and articles on the business and fashion platforms.

The first section of this chapter focuses on the makeup market in Europe, with an overview of the market and the leading companies, followed by an in-depth examination of the literature on makeup products and their categories, in addition to definitions of trends and their typologies. The second section focuses on the literature collected on the analysis methods used in this thesis and their significant role in analysing the market, the trends, and the future strategies for the market in Europe.

2.1 Market research

2.1.1 Overview of the European market

The EU consists of 28 member states and has the world’s biggest single market. It is considered one territory, without any internal borders, allowing freedom of movement for goods and services within the Union (European Commission 2018). The EU has experienced a noticeable population growth since 1960 with over 510 million consumers that are looking for goods and services in the market in 2017 (European Commission 2017). The geographical position of the market allows it to import and export goods to and from the developing countries more frequently than the other big markets—such as China, the USA, Japan, and Canada—put together (European Commission 2018). Due to the developed means of transportation and communication, the European market is open to other markets around the world, which makes it easier to buy and sell products both within and outside its own borders. Since the European market is the biggest market in the world, it enjoys a leading position in many industries, including that of makeup.
2.1.2 Anatomy of the European makeup market

The European makeup market has seen a 3.4% compound annual growth rate (CAGR) to reach a market value of $12,082 million, and its volume grew by 2.7% to reach a volume of 1,079.6 million units in 2016 (Market Line 2017). Consumers in the European countries are willing to spend a lot of money on cosmetics, with Sweden and Switzerland coming on top of the list of the countries for highest average per capita spending (Statista 2018). Cosmetics sales in Europe have increased in the past few years and are expected to maintain their growth.

![Revenue in the Cosmetics market](source: Statista, March 2018)

Germany, the United Kingdom (UK), and France had the highest cosmetics market volumes in Europe in 2016, with €13,603 million in Germany, €11,445 million in the UK, and €11,392 million in France (Statista 2017). Furthermore, the UK accounts for 19.3% of the European makeup market value, followed by Germany 14.5% of the market’s value (Market Line 2017).
Table 1: Market volume of cosmetics and personal care in Europe in 2016, by country (in million euros) (Source: Statista 2017)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>13,603</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11,445</td>
</tr>
<tr>
<td>France</td>
<td>11,392</td>
</tr>
<tr>
<td>Italy</td>
<td>9,890</td>
</tr>
<tr>
<td>Spain</td>
<td>6,857</td>
</tr>
<tr>
<td>Poland</td>
<td>3,306</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2,783</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2,134</td>
</tr>
<tr>
<td>Belgium/Lux</td>
<td>2,080</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,900</td>
</tr>
<tr>
<td>Austria</td>
<td>1,376</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,322</td>
</tr>
<tr>
<td>Norway</td>
<td>1,215</td>
</tr>
<tr>
<td>Romania</td>
<td>1,213</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,059</td>
</tr>
<tr>
<td>Finland</td>
<td>907</td>
</tr>
<tr>
<td>Greece</td>
<td>862</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>862</td>
</tr>
<tr>
<td>Ireland</td>
<td>798</td>
</tr>
<tr>
<td>Hungary</td>
<td>715</td>
</tr>
<tr>
<td>Slovakia</td>
<td>706</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>368</td>
</tr>
<tr>
<td>Lithuania</td>
<td>236</td>
</tr>
<tr>
<td>Slovenia</td>
<td>163</td>
</tr>
<tr>
<td>Latvia</td>
<td>160</td>
</tr>
<tr>
<td>Estonia</td>
<td>120</td>
</tr>
</tbody>
</table>

Makeup product distribution channels include hypermarkets and supermarkets, health and beauty stores, drug stores and pharmacies, department stores, and other types of stores. The hypermarkets and supermarkets account for 35.4% of the total market value, followed by the health and beauty stores, which account for 29% of the market's value (Market Line 2017). Revenues generated through offline sales account for 86%, and it is expected that online sales channels' revenues will increase to 17.1% by 2021 (Statista 2018).

2.1.3 Definition of makeup and its categories

Make-up is any substance that is applied to the face to add colour to particular facial features. Makeup is divided into four categories: eyes, face, lips, and nails (Dimitrova, Kaneva & Gallucci 2009: 1155). These categories are also divided into sub-categories: eye makeup consists of substances added to the eye area, such as eyeshadows, eyeliners, mascara for the lashes, eyebrow pencils, and eyelid primers that are used to before applying eyeshadows. Face makeup consists of foundations, light/dark creams, and powders that are used to hide or to enhance particular facial features. Lip makeup consists of coloured lipsticks and lip liners. Finally, nail makeup consists of nail polishes and nail
gels. The largest segment of the makeup market in Europe is eye makeup, which accounts for 34.4% of the total value, followed by the face makeup segment, which accounted for 32.4% of the value in 2016 (Market Line 2017).

Table 2: Europe makeup market category segmentation, $ million, 2016 (Source: Market Line 2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>2016</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eye Make-Up</td>
<td>4,157.4</td>
<td>34.4%</td>
</tr>
<tr>
<td>Face Make-Up</td>
<td>3,911.0</td>
<td>32.4%</td>
</tr>
<tr>
<td>Lip Make-Up</td>
<td>2,507.2</td>
<td>20.8%</td>
</tr>
<tr>
<td>Nail Make-Up</td>
<td>1,506.5</td>
<td>12.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12,082.1</strong></td>
<td><strong>100.1%</strong></td>
</tr>
</tbody>
</table>

Applying makeup has long been a big part of people’s daily routines. A consumer insights study was carried out by Cosmetics Europe in April 2017 into the perception of consumers of the cosmetics and personal care industry in Europe. There were over 4,000 male and female respondents from ten different countries across the EU. Respondents were asked to rate the cosmetics categories with only two options as 'important' or 'very important' based on their personal opinions. The results showed that 24.1% of the consumers considered their makeup products 'Important' in their daily life, whilst 17.3% felt they were 'very important' (Cosmetics Europe 2017: 8).

Table 2: Summary of importance of personal care and cosmetics products in your daily life (in %). (Source: Cosmetics Europe 2017)

<table>
<thead>
<tr>
<th></th>
<th>important</th>
<th>Very important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun care products</td>
<td>33.0</td>
<td>20.8</td>
</tr>
<tr>
<td>Oral care products</td>
<td>29.6</td>
<td>64.0</td>
</tr>
<tr>
<td>Skin care products</td>
<td>38.0</td>
<td>34.5</td>
</tr>
<tr>
<td>Body care products</td>
<td>38.3</td>
<td>51.6</td>
</tr>
<tr>
<td>Perfume products</td>
<td>42.0</td>
<td>22.1</td>
</tr>
<tr>
<td>Make-up products</td>
<td>24.1</td>
<td>17.3</td>
</tr>
<tr>
<td>Hair care products</td>
<td>41.2</td>
<td>44.0</td>
</tr>
<tr>
<td><strong>Average:</strong></td>
<td><strong>35.0</strong></td>
<td><strong>36.0</strong></td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>71.0</strong></td>
<td></td>
</tr>
</tbody>
</table>
According to Maslow (1954: 35), people’s requirements for survival are taken in a hierarchy of needs. This model presents the needs of individuals in hierarchal order, with five levels forming a pyramid of needs. The first level has the physiological factors that individuals need in order to be able to live, such as air, water, and food (Maslow 1954: 36). The second level has the elements that individuals need to feel secure, such as the security of a job, of a family, of property, and of their body (Maslow 1954: 39). The third level has the factors that individuals need to feel loved and to belong to a community or a family (Maslow 1954: 43). The fourth level consists of the elements that individuals need to feel valued and respected in their society, such as self-confidence, respect for one’s self and of others, and achievements (Maslow 1954: 45). The last level reflects the self-actualisation that a person reaches after fulfilling all of the other levels. This level has elements such as creativity, morality, and self-fulfilment (Maslow 1954: 46).

In this model, the motivation for assigning importance to makeup in the people’s lives could be positioned between the levels of 'esteem' and 'self-actualisation', depending on the individual's motivation for using makeup. Some people connect makeup to their self-esteem and self-confidence, whilst others connect it to their need for self-actualisation.

2.1.4 Leading makeup companies in Europe

The makeup market in Europe is dominated by a number of big companies and some smaller companies. The leading company with the highest market share is L’Oréal. The company occupies 26.8% of the makeup market in Europe (Market Line 2017). L’Oréal
has acquired numerous recognised brands, ranging from consumer brands such as Garnier, Maybelline, NYX, and Essie, to high-end luxe brands such as Lancome, Urban Decay, Georgio Armani, Helena Robinstein, Kiehl’s, and Biotherm (L’Oreal 2017). According to Statista (2017), L’Oreal Paris was ranked the number one leading brand in the makeup market in Europe based on its brand value, accounting for $13,697 billion in 2016, followed by a number of other brands also owned by L’Oreal (such as Garnier, Maybelline, and Lancome). L’Oreal maintains its growth by regularly acquiring new brands and expanding into new markets (L’Oreal 2017).

L’Oreal was followed in 2016 by Coty Inc., which occupied an 8.6% market share, and then by The Estee Lauder Companies Inc., with 6.3% of the market, and finally Procter & Gamble, with 5.6%. Those companies also own several makeup brands that are highly recognised and that operate in the different segments of face, lips, eyes, and nails (Market Line 2017).

Table 3: Europe makeup market share, % share, by value, 2016 (Source: Market Line 2017)
2.1.5 Definitions and typology of trends

Trends are factors that emerge, causing changes in society or markets. The speed of change can be categorised as fast, medium, or slow, depending on how the market perceives the influence of the trends (Saritas & Smith 2011, cited in Miles, Saritas & Sokolov 2016: 69). Most of the trends that develop in the market cannot be changed or influenced by companies or individuals and must just be adapted to. According to Saritas and Smith (2011, cited in Miles et al. 2016: 70), trends can be characterised into three different ways, depending on their outcomes and durations:

**Mega trends** are those trends that have existed for decades, they describe systemic interaction between factors that lead to the emergence of Mega Trends. Those factors either strengthen or weaken the trends over time, depending on the nature of their impact.

**Potential trends** are the result of innovations, projects, and actions in the market that have the opportunity to grow in the future. These trends are rooted in past innovations or beliefs that have not previously received the required attention but could gain popularity in the future.

**Branching trends** are formed by a group of related trends that are not similar but serve the same cause and purpose and lead to similar results.

Trends do not just appear in the market without any reason. They are usually caused by forces, or 'drivers', which can be internal or external to the market and can be traced by conducting trend analyses. Drivers can vary depending on the type of trends that they cause. They may start as 'weak signals', early indicators of shifts in the market, and then get more attention in the future, leading to them becoming drivers of trends that influence the market directly or indirectly (Saritas & Smith 2011, cited in Miles et al. 2016: 72)

2.2 Analysis methods

The analysis methods were taken from scholarly books by experts in the fields of marketing and competitive analysis. This section is divided into three subsections. The first part defines the industry analysis method using Porter's five forces model. This tool will
aid understanding of the competitiveness of the makeup market by analysing its performance as a whole, based on the five forces. The second part defines the macro environmental (STEEP) analysis by listing and defining its categories. This analysis will assist in identification of the trends that influence the makeup market and in analysing them based on the social, technological, economic, ecological, and political factors. The third part defines the marketing strategy using the 'marketing mix 4P's' tool. This tool helps analysing the current marketing mix strategy of the company case: L’Oréal in terms of the company’s products, prices, placement and promotion. As mentioned previously (see page 8), L’Oréal has been chosen for this thesis as a practical example and a representative of the companies in the market because it has the largest market share in Europe. The last part introduces the scenario analysis method. This method helps to narrow down the trends that are used in the STEEP analysis to analyse their future outcomes and future scenarios for the market. This tool also helps to plan strategies for the companies in the market, using L’Oréal as an example, based on the constructed scenarios. These analysis tools and methods form the basis of the analytical part of this thesis.

2.2.1 Industry analysis: Porter’s five forces model

Industry analysis provides a framework for understanding the forces that form the outline of the industry. The aim of the analysis is to understand the factors that affect the profitability of the industry (Fleisher & Bensoussan 2011: 60). Porter created the 'five forces model' to analyse the major economic and technological factors that have an impact on industries. Fleisher & Bensoussan classified the five forces as follows:

- **Threat of new entrants**: The difficulty that the new entrants face in the market is measured by how competitive the industry is. The more competitive the industry, the more difficult for new competitors to enter the market and compete against its big players.

- **Supplier power**: Supplier power is determined by how powerful the suppliers are in the market. For instance, the suppliers’ ability to change and influence prices and the quality of material that they provide. If the market is able to switch suppliers and the availability of substitutes is high, then the supplier’s power is low, and vice versa.
• **Buyer power**: Buyer power in the market is measured by the impact that the buyers have on the firms in the market. This can be classified by analysing the buyer’s actions and assessing whether they could have an impact on the price and quality of the products. Buyer power decreases when the firm offers unique products in the market and increases when purchasing commodity products.

• **Threat of substitutes**: The threat of substitutes in the market can be high if similar products and services are being offered by competitors with low prices and high quality. This can give competitors a strong competitive advantage in the market.

• **Power of rivalry among existing competitors**: This is measured by identifying the key players in the market. A market is highly competitive when major similar-sized companies are offering similar products at the same time. However, high market growth would decrease the amount of rivalry because one company’s sales growth would not affect another’s.

2.2.2 Macro environmental analysis (STEEP)

This analysis covers the macro environmental factors, which include external factors and trends that affect the performance of the market. These macro environmental factors are located in the general outermost level of the market (Fleisher & Bensoussan 2011: 269-271). STEEP stands for social, technological, economic, ecological and political or legal. The aim of this list of categories is to define certain trends, drivers of trends and weak signals based on their relationship with the macro environmental categories mentioned above (Miles et al. 2016: 64). According to Fleisher and Bensoussan (2011: 272), those factors that are located in the outer layer of the market, and they are explained as follows.

• **Social factors and trends that develop in the society where the market operates**: These trends can be changes in beliefs, values, ethics, demographics, and lifestyles. They might change people’s buying behaviour, leading to shifts in demand for certain products and services.
• **Technological factors and trends such as digital media innovations and energy trends:** These might, for instance, shift the manufacturing methods in which the market operates, leading companies to upgrade to the new technology.

• **Economic factors and trends that can affect the consumption of goods in the market:** The buying behaviour of the consumers is strongly related to the way incomes are distributed among the people in the society, in addition to the fiscal and monetary policies in which the market operates.

• **Ecological factors and trends that are related to sustainability:** This includes the 'greening' of the environment and the other biological and physical aspects in which the market operates.

• **Political and legal factors and trends that are related to the governments’ policies:** This includes regulations and legislations set by the government that companies in the market need to follow.

2.2.3 Marketing mix 4 P’s

The marketing instruments 4 P’s aid analysis of whether a company is reaching its goals in the market (Tomczak, Reinecke & Kuss 2018: 171). This tool is important for analysing company strategies, and its ability to maintain its position regardless of changing trends and factors in the market environment. This tool assists in developing better insights into companies’ strategies in relation to their products, prices, placement, and use of promotion and advertisements.

• **Product** This instrument is related to designing the product that the company wants to offer in the market. It is concerned with the quality, design, and sales of the products. Products can be actual products, or services, goods, or rights to be able to access services. Companies should consider how their products or services can add value to the market by satisfying consumers’ needs (Tomczak et al. 2018: 175).

• **Price** This is what consumers pay in return for goods or services in the market, and it is always comparable to the functionality of the 'items' that are paid for (Tomczak et al. 2018: 182).
- **Placement** This is the channel in which companies distribute their products and services. Distribution of products can be done directly and indirectly by either distributing the goods to the retailoring stores or using intermediaries. Placement of products can be done online, in actual stores or by service providers. This diversity gives manufacturing companies the opportunity to place their products in more than one channel at a time (Tomczak et al. 2018: 201).

- **Promotion** This is how companies communicate about their products to the public in order to influence consumers’ buying behaviour (Tomczak et al. 2018: 191). Companies set goals for promoting their goods and services in the market by targeting the segment that could be interested in what the company is offering and sending a clear message.

2.2.4 Scenario analysis

Scenarios are used to describe what the future may hold, based on assumptions made about trends in the market. Scenarios do not instruct analysts on how to behave in the future, but rather give them the possibility of imagining circumstances and determining how to react accordingly. Scenario analysis is a planning method for environmental analysis in fast-changing market trends and conditions. This analysis is used to collect data about the trends and to assess their influence in terms of the type of threats and opportunities in which the trends could result (Fleisher & Bensoussan 2011: 284). This tool will be used in this thesis to determine the potential impact of the emerging macro environmental trends discussed in the STEEP analysis. Several steps are taken into account in order to reach the end scenarios that are likely to happen in the makeup market in Europe. After identifying the trends and uncertainties in the market, the outcomes of these trends are ranked as either positive or negative. This thesis will consider the consistency and plausibility of the trends and uncertainties over a timeframe of 1-5 years. This will lead to the creation of emerging scenario themes relevant to the market strategy and an assessment of the possible outcomes of these themes. After this step, some decision scenarios have been created to test the possible strategies and innovations in order to solve the issues and adapt to the changes as they develop. The decision scenarios have been developed to ensure that companies are prepared for the changes and can maintain their success and competitive advantage in a fast-changing market environment (Fleisher & Bensoussan 2011: 292).
3 European makeup market analysis

The analysis section is divided into three sections. The first section analyses the makeup market in Europe as a whole, using the industry analysis method. The second section analyses the emerging trends that could influence the makeup market in the next 1-5 years. The third section takes L’Oréal as a case study of the makeup market in order to better understand its current marketing mix strategy.

3.1 Industry analysis: Porter’s five forces model

In this subsection, the makeup market in Europe is analysed internally and externally using Porter’s five forces model. This analysis aids understanding of the competitiveness of the market in regard to the five forces that are influencing it.

![Porter's five forces model – matrix of the makeup market in Europe](image)

Figure 3: Porter's five forces model – matrix of the makeup market in Europe

3.1.1 Threats of new entrants

As mentioned earlier (see page 9), the makeup market in Europe is dominated by a number of large and highly recognisable brands. These brands belong to large companies that benefit from economies of scale which allow them to reduce the fixed and variable costs per unit as a result of increased production. This gives the large companies the privilege of producing more products at a lower cost, which allows them to compete more effectively in the makeup market (Corporate Financial institute 2018). New entrants entering the market find it more difficult to win the price competition against the bigger brands in the market because they mostly start at a smaller scale, which increases the costs of goods sold.
Figure 4: The relationship between cost and quantity for companies ‘economies of scale’ (Source: Corporate Financial Institute 2018)

Figure 4 shows the relationship between the quantity the firm produces in relation to costs: producing more units causes costs to fall to C1, increasing profitability for the bigger companies in the market. New entrants might enter with small scale production of one type of makeup products, and it is difficult for these brands to absorb the costs of producing new products. Additionally, securing safety approval is a long and costly process for manufacturers, and the EU applies strict safety regulations and legislation for makeup products before allowing them into the European market (European Commission 2018).

After securing safety approval for newly produced products, new entrants must convince distribution channels such as hypermarkets and supermarket to stock their products. This process can be difficult because stores might not want to risk replacing a popular brand’s products with an unpopular one in their channels. The lack of a strong brand image is another obstacle for new entrants, due to high levels of brand loyalty to certain popular brands in the makeup market. Big brands gain popularity by spending large amounts of money on advertising their products, hiring celebrities to promote their brands and setting higher standards for new entrants to compete with.

Nevertheless, the makeup market is in a consistent growth and this attracts new entrants, creating opportunities for new products and innovations. For this reason, the threat of new entrants to the makeup market is moderate.
3.1.2 Supplier power

Manufacturing makeup products requires numerous raw materials such as chemicals and minerals that are available at a large number of chemical factories. This weakens the suppliers' position because larger companies have the possibility of switching suppliers and getting the same outputs. The products that are used for makeup must be safe for use by consumers and must comply with EU regulations and legislation on testing and manufacturing (European Commission 2018). The EU regulations and legislations can weaken the supplier power because suppliers must fulfil the safety requirements in order for the makeup companies to purchase raw materials from them. However, Suppliers that already fulfil the safety requirements have a stronger position in the market.

Even though the supplying chemical companies may be smaller in scale than the makeup companies, they do not tend to rely on the makeup companies to purchase their goods. Instead, they maintain their revenues by manufacturing other chemical products for other purposes and different companies (Parchem 2018). Supplier power in the makeup market is therefore moderate.

3.1.3 Buyer power

As mentioned earlier (see page 6), most large brands stock their products in hypermarkets and supermarkets. These markets require popular brands in their stores in order to maximise their own sales volume in a highly fragmented market that is subject to change in fashion and consumer tastes. Since those stores stock a large number of brands, buyer power is strengthened by their ability to choose similar products from other brands in the market. This also increases buyer power in terms of influencing the quality and price of the products that companies offer in the market. Some makeup brands in Europe do vertical integration by distributing their own products in their own stores. This gives the brand the privilege of not being tied to other distribution stores. For instance, KICKS Beauty brand is only distributed in KICKS cosmetics stores in the Nordic countries (Kicks, 2018).

3.1.4 Threats of substitutes

There are few substitutes to makeup products; for instance, the permanent makeup technique. This involves tattooing the facial features in order to add colour to them. Many local beauty clinics offer this type of service, and this method might gain popularity in the future. The most common use of permanent makeup is shaping and painting over
the eyebrow hair, and this could influence the eyebrow product market in the future (Deem 2007). Other substitutes to makeup products are semi-permanent eyelashes extensions and nail gels offered at local beauty salons. Nonetheless, the permanent types of makeup are costlier and do not allow consumers to use their creativity by changing their looks frequently. The threat of substitutes in the market is therefore weak.

3.1.5 Power of rivalry

Although the power of rivalry from outside the market is weak, the rivalry inside the market is very strong. As mentioned earlier (see page 9), the makeup market in Europe is dominated by four leading companies: L’Oréal, Coty, Inc., Estee Lauder Inc., and Procter & Gamble. These account for 47.2% of the whole European makeup market. These companies own powerful brands in their segments, and the categories include makeup products, fragrances, skin care products, and hair care products. Thus, this reduces the leading companies’ reliance on only makeup products. Since these companies have large production facilities, their fixed costs are normally high, and this increases price-based rivalry as companies set prices that ensure their profitability (Morning Star 2018). The leading companies are not heavily affected by the performance of the smaller scale brands because of their high brands’ values and their competitive position in the market. However, market growth reduces rivalry and competition because the increased revenues of one brand do not influence the revenues of the others in the market. Nonetheless, the power of rivalry in this highly fragmented market is considered strong.

3.2 Macro environmental factors analysis (STEEP)

The makeup market in Europe is growing at a fast pace, and there are several factors that affect this growth. Thus, this subsection focuses on the emerging trends that are influencing the market in the medium-term. Markets need to prepare for upcoming changes in order to prevent uncertain situations. The emerging trends in the makeup market in Europe have been identified and analysed according to their influence on the market using the STEEP factors.
Social trends: There are many social factors developing and changing the makeup market. As shown in Figure 6, interest in makeup products and fashion has seen a noticeable increase in Europe in recent years.

Note that Google Trends offers a record of the number of internet searches, and the data suggest that there has been an increase in the number of searches for this term. As revealed by Google Trends, and as seen in Figure 6 above, the term 'makeup' has scored 100 lately, which represents peak popularity, and this did not happen before 2015. Furthermore, the increased interest in makeup explains the increase in average revenues per person that the market has benefitted from in recent years Statista 2018).
There are several driving forces of this increased interest in makeup products. As seen in figure 6, it was noticed that interest in makeup increases and reaches in peak during October–November every year. The forces behind the high interest in makeup during that time of the year is the new products that are launched seasonally, with some recognised brands launching new products inspired by the colours of autumn (NYLON 2017).

This leads to a second trend that has emerged in recent years, which is the use of social media channels by people to express their thoughts about beauty and makeup looks created by other social media followers. These followers attract attention from viewers due to their advanced makeup skills, and then write blogs and record vlogs (‘video blogs’) to give beauty and makeup advice. Beauty content published on social media, and specially YouTube, has gained substantial popularity over time, with more than 5.3 million beauty videos uploaded to YouTube in 2016 and videos views of 88 billion in 2017 (Statista 2017).
The most followed beauty influencer in Europe is Zoella, who is based in the UK. She began blogging eight years ago and is one of the most followed beauty influencers in the world. She has over 12 million followers on YouTube and 11 million followers on Instagram, having created her own beauty products brand in 2014 (O’Connor 2017).

Another social trend that is emerging in the makeup market in Europe is the values behind that use of makeup for the young generation. As many people consider the use of makeup product as a factor that increases their overall confidence and self-esteem.

A study was conducted by IKW, the German cosmetics, toiletry, perfumery and detergent association. The respondents were 1,000 males and females aged between 14 and 21 years old, and they were asked about the importance of their physical appearance and how people perceived them based on this. 73% of the respondents claimed that beauty care was very important to them, and 60% said that people were judged based on how they looked (IKW n.d.: 2). The majority stated that they used makeup to hide unpleasant facial features, to be more attractive, to make a good impression of themselves, and to look more like adults. 26% of the respondents related the use of beauty products to 'belonging' in society (IKW n.d.: 5).
Referring back to Maslow’s hierarchy of needs (see page 8), the motivation for using makeup for many Millennials is not only increasing self-esteem, but also seeking 'safety' on the hierarchy, which occurs at the level of belonging and being accepted by others in society.

Additionally, the study mentioned earlier (see page 7), conducted by Cosmetics Europe, showed that the respondents aged between 16-25 showed the most responses to the use of makeup products as 'important' and 'very important' for building up their self-esteem, and showed almost no response of 'does not apply cosmetics' for that age group (Cosmetics Europe 2017: 16).

Figure 9: Importance of personal care and cosmetic products in building self-esteem (by age groups in %) (Source: Cosmetics Europe 2017: 16).

**Technological trends:** Recent technological development has led to many innovations that are likely to affect the makeup market. One of these innovations is virtual reality. This is a computerised system that allows users to experience the digital world and become part of the program (Patel & Cardinali 1994: 5). Virtual reality is an old concept, going back to late 1980s and early 1990s, though it has gained more popularity in recent years (Steinicke 2016: 7). Statistics show that, in 2016, more than 70% of the public in Europe had heard of virtual reality (Statista 2018). The increased awareness of this concept led to the significant increase in headmount unit sales from mid-2015 to mid-2016 in Western Europe (Statista 2018).
Gaming has been the leader industry in implementing virtual reality programs into its products, and Europe has seen $1,9 billion in sales revenue, which is the highest of the world’s revenues in 2017 (Statista 2018). Virtual reality is now arriving in the makeup market through the implementation of virtual mirrors in smartphone apps that allow consumers to try makeup products virtually before purchasing them.

Another technological trend that has emerged is three-dimensional (3D) printing. This technology allows people to print 3D objects using a digital design data (Stanic, Lozo & Svetec 2012: 120). It creates items more cheaply than they can be purchased from the manufacturers, and is an efficient method of creating items using ink, plastic, and metals (Park, Kim, Lee, Jang & Jun 2016: 124). 3D printing technology has been widely used for different purposes. Its main use has been prototyping, creating a 'proof of concept' and for production purposes (Statista 2018).

3D printing is also entering the makeup market sector. Innovations has been made in regard to printing one’s own makeup at home by capturing colours online or from real life and printing them as makeup products (Crook 2014). It can print any types of makeup whether they are cream based, or powder based, and people can decide to print their own customised makeup products at low prices.

Another technological trend that is gaining popularity is artificial intelligence and automated retail systems. Artificial intelligence is the intelligence generated by machines. It
is called 'artificial' because it does not come naturally and needs to be created by humans inserting data into the machines (Plenert & Kaiser 1993: 54). Many food and beverage industries have used automated vending machines to allow people to obtain snacks and drinks without interacting with another human. The machine is sufficiently intelligent to recognise the customers’ choices and serve them accordingly.

This trend is slowly moving into the makeup sector, with some makeup brands offering products through automated vending machines at airports in different parts of the world, including the USA (Mychaskiw 2015).

**Economic trends:** There are several economic factors that have affected the makeup market in Europe. One of those is Brexit ('British exit'), which was voted for in June 2016. The UK submitted a withdrawal notice to the EU in March 2017, meaning that the UK will no longer be part of the EU, and will exit the European single market on 30 March 2019 (European Commission 2017: 1). The exit of the UK will cause many uncertainties in the EU's economic situation. The EU will face financial problems immediately after the withdrawal of the UK because the British net contribution will have to be taken from other member state countries. This will lead to frustrated member states having to increase their net contribution payments, which might result into them following the UK’s path in the medium-term (Welfens 2016: 272-273).

After the withdrawal of the UK from the EU, importers located in the UK will no longer be considered distributors from the Union, rather they will be considered operators of goods into the EU from a third country. These operators will need to comply with the importers’ rules and legislations set by the EU (European Commission 2018: 2). Another uncertainty about Brexit is related to the trade agreements that will be agreed upon by the UK and the EU for maintaining trade activities in the regions and the movement of goods, which still remain uncertain.

The UK buys 66% of its total cosmetics imports from the EU, and 64.8% of its total cosmetics exports go to the EU (CTPA 2017).
In this market, potential customers must have stable disposable incomes in order to be able to purchase the goods. One recent economic factor in the European market has been the increased employment rates in most of the EU member states (Eurostat 2016).

![Employment rate map](image1)

Figure 11: Employment rate, age group 20-64, 2016 (%) (Source: Eurostat 2016)

Statistics show that the employment rate is over 70% in most of the EU countries. The high employment rate gives people the ability to purchase goods and services. The consumers that are living in countries with the highest employment rates, such as Sweden and Switzerland, tend to spend more on makeup products than consumers that are living elsewhere in Europe.

![Cosmetics spending chart](image2)

Figure 12: Average per capita spending on cosmetics in 2017 by country (Source: Statista 2018)

Another economic factor affecting the European market is increased inflation. Although the inflation rate in Europe is considered low, due to the falling price of oil, however, the inflation is subject to increase in the coming years (European Commission 2018). Increasing inflation results into increased costs of goods, compared to the value of money.
The inflation rate has increased noticeably since 2014, when it was 0.3%, to 1.5% in the first quarter of 2018 (European Central Bank 2018). Inflation decreases life quality because consumers are no longer able to purchase the same things due to increased prices. Companies also experience increased cost of sales while manufacturing products, increased depreciation costs, decreased net earnings, and increased tax payments (Seed III 1981: 7). Furthermore, since makeup products are considered 'wants', and not basic 'needs', when inflation increases it affects the buying behaviour of consumers in the makeup market.

Ecological trends: Manufacturing makeup products requires a number of raw materials including chemicals. Those chemicals can pollute the environment and can be harmful to the human health. Parabens are a group of chemicals that are used to preserve the makeup products from the growth moulds and bacteria. This group of chemicals are found in the environment, they come from production factories and are mostly found in household wastewaters due to heavy usage of cosmetics by urban households.

Due to these chemicals’ polluting effects, the EU regulates and limits the use of parabens to ensure that factories do not exceed the maximum level allowed in their production systems (Commission Regulation EU 2014). However, since makeup products are used heavily by consumers, large amounts of different types of parabens are found in the water, mostly on the surface of rivers, despite the treatment of wastewater (Li, Shi, Gao, Liu & Cai 2015: 36). Traces of parabens have also been found in marine creatures’ tissues and in human urine (Smith, Braun, Williams, Ehrlich, Correia, Calafat, Ye, Ford, Keller, Meeker, et al. 2012: 1538-1543). Additionally, parabens have also been found in human breast tumour tissues collected at the Edinburgh Breast Unit for study, with paraben levels of more than twice the average level in four of the 20 tumours collected (Darbre, Aljarrah, Miller, Coldham, Sauer & Pope 2004: 11).

Consumer awareness of the harms of using this type of chemical to preserve makeup products is increasing. Statistics show that many consumers choose to purchase makeup products based on their safety criteria, with over 43% of the consumers surveyed stating that they choose to purchase products that do not contain any chemicals, that do not pollute, and that do not contain parabens (Statista 2018).
Another ecological trend that is influencing the makeup market in Europe is consistent global climate change. The amount of CO$_2$ that is released into the atmosphere is increasing and causing increased temperatures. 50% of the CO$_2$ in the atmosphere is a result of burning chemicals and fuel, which will remain in the atmosphere in the future. For each 10% increase of atmospheric CO$_2$ in the air, the mean global temperature increases by 0.3 degrees (Broecker 1975: 461). Recent years have been consistently among the hottest on record, with global land and ocean temperature increasing dramatically since 2012 and accounting for a 0.94 degree increase in temperature in 2016 (Statista 2018).

This temperature increase impacts the functionality of the makeup products for the consumers, as the sunlight and heat oxidise the makeup products on the face and while storing them. In which results that products would not be suitable for use anymore (Vogue 2016).

The EU sets regulations and legislation obliging companies to reduce the amount of CO$_2$ released in the atmosphere, and this legislation is often financially challenging for companies. The European Union Emission Trade System (EU ETS) works with the ‘cap and trade system’, the cap being the amount of certain greenhouse gases (CO$_2$) that can be emitted by installations covered by this system. Companies receive or buy greenhouse gas emission allowances and there is a limit to the number of allowances that companies can buy, in order to guarantee the allowance’s value. Companies must present their
emission reports according to their allowance every year, and those that fail to present emission records and exceed their allowance must pay huge fines. However, companies that do not spend all of their emission allowance are allowed to save the remaining allowance for their future needs or trade it with other companies (EU ETS 2018). Make-up companies must comply with the regulations and legislation set by the EU in order to trade in the single market.

**Political trends:** Europe has seen increasing immigration to its member states in recent years. More than 2.4 million immigrants came to Europe from non-member countries in 2016. Germany was at the top of the list, accounting for around 1,029,900 million immigrants in 2016 (Eurostat, 2018). The immigrants that came to Europe in 2016 were much younger, on average, than the resident populations in the member states. The median age of the total population residing the EU area was 42.9 years in 2017, whilst the median age of the immigrants that came to the EU in 2016 was 27.9 years. Thus, the flow of young immigrants into the EU might be a factor in reversing the ageing population in some of the European countries (Eurostat 2018).

Increased immigration into the EU increases the potential consumer base. This may increase the revenues in the makeup market. However, in most cases, increased sales will only occur when the immigrants are given the chance to integrate into the market by working to earn stable incomes. It is worth mentioning that the EU sets the 'single permit' directive, which allows non-EU workers living and working legally in the EU area to be treated the same way as the nationals of the country. This includes both the non-EU citizens seeking to reside and work in the EU area, and those who are already living in an EU member state and are working or looking for work there (European Commission 2018).

The EU released a report on the implementation of trade policy strategy and 'trade for all' to enhance globalisation in the area, in September 2017. This strategy enforces transparency and openness, in addition to high standards of labour, whilst protecting consumers and the environment, along with policies that guarantee globalisation is implemented in the right way for Europeans. This strategy also guarantees that all companies from the EU are treated fairly. The trade policy enhances globalisation and market
growth in the EU by being open to global trade and the free flow of goods, services, capital, and people in and outside of the Union.

It is worth mentioning that certain regulations are implemented by the EU to guarantee the safety of foreign investments inside the Union. However, the main future threat to free global trade is the domestic protectionists who might block any foreign trade activities carried through their market (European Commission 2017: 2-4). Nevertheless, there has been a year-on-year increase in foreign direct investment projects in Europe since 2012, accounting for 5,845 projects in 2016 (Statista 2018).

![Figure 14: Annual number of foreign direct investment projects across Europe 2012-2016 (Source: Statista 2018)](image)

The makeup market in Europe benefits from 'trade for all' strategy in a way that companies trading makeup products are able to access the EU single market and trade their products there. Based on the European Commission, having open borders for trade and investment creates more employment opportunities for the residents in addition to adding variety of makeup products (European Commission 2017: 3). Statistics has shown that jobs created by foreign direct investment projects in Europe were around 259,673 in 2016 (Statista 2018).

3.3 Marketing Mix – Company case: L’Oréal

As mentioned earlier (see page 9), L’Oréal has been growing in recent years, with increased revenues and brand acquisitions. This section analyses the company’s current marketing mix strategy and how the company maintains its growth and success with the
fast-changing trends and demand in the makeup market in Europe. The marketing mix tool has been used for this analysis.

*Product:* L’Oréal offers a wide range of makeup products. The diversity of their products types and purposes gives consumers the space to choose the products that suit their preferences. The company also bears in mind the concept of ‘universalisation’, offering different types of product in different parts of the world, in keeping with the traditions of those countries (L’Oréal 2017).

L’Oréal seeks to be as ethical as possible in regard to the manufacturing of its products. The company encourages its suppliers to reduce their CO² emissions to fight climate change and to maintain sustainable production facilities (UN Global Compact 2017: 28). However, the company still uses parabens as preservatives in its makeup products, though it claims that the concentration of these chemicals is monitored to guarantee a safe experience for consumers (L’Oréal 2018).

*Price:* As mentioned earlier (see page 9), the company has a wide range of makeup brands, from consumer makeup products that are sold at average prices, to luxe products that are sold at higher prices. The diversity of prices and wide product range by the brands give the company a competitive advantage because consumers have more price options for the product categories that they prefer. The luxe makeup products line is growing due to the increased number of high-income buyers and the flow of international consumers (L’Oréal 2017).

*Placement:* L’Oréal places its consumer makeup products and luxe makeup products in different distribution channels, such as hypermarkets, supermarkets, drugstores, and traditional stores (L’Oréal 2018). Products are sold in the normal stores and markets, as well as online. L’Oréal accounts for 10% of the whole beauty market share online, and it experienced 24% growth in worldwide online cosmetics sales in 2017 (L’Oréal 2017). Offering online and offline sales channels increases revenue because it offers greater consumer choice.
Promotion: L’Oréal promotes its products extensively. With the emergence of beauty bloggers and influencers, the company began promoting its products recently by sponsoring influencers, giving them makeup products for free or at discount rates. The influencers write about or record their experiences with the products, and this is how they encourage their followers to purchase them. The company also advertises its products by hiring well-known models and artists to promote new launches. L’Oréal also creates campaigns for consumers; for instance, giving free samples with product purchases, and seasonal discounts. The company also embraces new technological developments. The brand L’Oréal Paris launched an app that transforms the smartphone’s front-facing camera into a virtual mirror, allowing consumers to apply makeup virtually (L’Oréal 2016).
4 The impact of the trends on the market

This chapter concerns a forecast for the influence of the earlier mentioned trends on the market. There are many threats and opportunities that are unfolding, and having sufficient knowledge about the future of the market is crucial for maintaining the makeup market growth. The market forecasting begins with a scenario analysis of the makeup market in Europe, based on the trends and factors mentioned earlier (see page 19). After constructing the relevant scenarios, a future strategy of the company case for L’Oréal was prepared in the second section of the chapter.

4.1 Scenario analysis of the makeup market

After conducting an analysis of the market and the trends, the question arises: what will be the impact of those trends on the makeup market in Europe over the next 1-5 years? The reason for choosing this timeframe is the uncertainties that will follow the market in the medium-term.

The first step of this analysis was collecting the data from the STEEP analysis (Chapter 3) and identifying key assumptions that would impact the future of the makeup market in Europe. Those key assumptions are as follows:

1. The demand for makeup products will continue increasing in the market in Europe.
2. Competition between new entrants and the leading companies in the makeup market will increase.
3. Technological development will change the production systems in the market.
4. Brexit will create a gap in the market’s economy.
5. Inflation will increase in the next few years (European Commission, 2018).
6. The legislation that will be introduced about the use of chemicals such as Parabens.
7. Globalisation activities by the market will be widened.

After defining these key assumptions, the author then divided them into certainties and uncertainties:

Certainties:
1. The increasing demand for makeup products in the market: The increased social media usage by makeup and beauty influencers, in addition to the increased
interest among millennials in makeup products, will help the market increase revenues and maintain demand levels in the medium-term.

2. Changing of production systems in the makeup market due to great technological development: This will create more sustainable and efficient production technologies to be implemented for makeup product manufacturers.

3. The increasing inflation in the last few years: This will increase the prices of the goods for consumers and the costs of goods for the companies (European Central Bank, 2018).

4. The widening of globalisation by the strategy ‘trade for all’ that is set by the EU: This will help increasing the level of investments that will be made in the makeup market in Europe.

Uncertainties:

1. Since there is no trade agreement yet regarding the withdrawal of the UK from the EU’s single market, how will Brexit affect the makeup market in Europe?

2. Since researchers are trying to assess the harmful levels of paraben chemicals in the water and in the human body, in addition to their connection to certain types of human tumours, how will legislation change regarding the use of paraben chemicals in makeup products?

The outcomes of the two uncertainties above are not obvious yet. In order to analyse their impact on the makeup market in Europe, it is logical to state that they could have only one of three types of influences: positive, negative, and neutral if everything stays the same. In order to determine the impact of those assumptions on the market, their outcomes will be placed in two extreme positions which are positive outcomes and negative outcomes.

The execution of Brexit could have a positive impact on the makeup market if a free trade agreement is to be made between the two markets, and if the same levels of imports and exports continues between the markets. On the other hand, Brexit could have a negative impact on the makeup market in Europe if both markets did not agree on a free trade agreement, as this would mean companies would be required to pay tariffs in order to trade in Europe and in the UK. Additionally, as mentioned previously (see page 24) as a result of Brexit, the loss of the UK’s contribution to the EU might lead
the other EU member states required to make greater net contributions to also withdraw, which would result in more uncertain outcomes in the single market.

The other uncertainty is around how EU legislation will change the makeup market. The EU has set regulations regarding the amounts of chemicals, such as parabens, that can be used in makeup products. Parabens are cheap and easy to dissolve in makeup, which is why many companies use them to preserve their products.

As mentioned previously (see page 26), there have been studies of the connection between parabens and human breast tumours. If researchers and scientists are able to find a link between the use of parabens and the occurrence of human tumours, the EU would ban the use of those chemicals in the makeup products. This results in uncertainties in the market, as companies must find alternatives to parabens that have the same preservative qualities and that are equally cheap.

In order to understand the interrelationship between the two uncertainties and their impact on the market, a 2x2 scenario matrix is constructed:

![Figure 15: Scenario matrix of the makeup market in Europe](image)

1. Makeup market growth
   - Freedom of movement of goods and services without tariffs
   - Stable trade relationships between EU and UK
   - Increased competition due to the new foreign investments and international influencers creating their own brands and trading in the makeup market
• Same costs of goods sold for companies in the market

2. Market adaptation
• Banning the use of parabens in makeup products by the EU
• Increased awareness of organic makeup products
• Higher costs of goods sold due to the search for alternatives to parabens and the price ranges set by the new suppliers

3. Economic slowdown
• Protectionist nations refusing to join the open market
• Tariffs expected to be paid by the companies in order to trade their makeup products from and to the UK
• Withdrawal of more member states from the EU
• Emergence of economic problems in the makeup market in Europe

4. Stagnation
• Decreased revenues in the market
• Increased prices in the market, which affects the buying behaviour of consumers due to change of costs’ structure
• Decreased employment in Europe due to the lack of foreign investment from the UK

Based on those scenarios, companies in the market should plan strategies to shape and adapt to the future and decide strategic options in order to prevent and manage risks (Fleisher & Bensoussan 2011: 292). Therefore, due to the size and position of L’Oréal in the makeup market in Europe, the future strategies have been planned for this company in the following section, in order to negotiate each scenario and their outcomes.

4.2 Strategy for the company case: L’Oréal

Referring back to Chapter 3, Section 3.2, L’Oréal has managed to maintain its growth, despite the trends and factors that are emerging, by remaining up-to-date with changes and shifts in the macro environmental factors of the market. However, the company must be prepared for the uncertain scenarios in order to act effectively in the future.

Scenario 1. Makeup market growth
According to the scenario, L’Oréal will be able to maintain its revenues with no changes to the cost structure of the company. The makeup market is open, and the company is
able to trade its goods in the same way as it does currently. Nevertheless, when there are open borders and an open market, more foreign investments will be made, and more international influencers will be able to create their own brands and trade their product lines, which intensifies the competition for L’Oréal in the market.

In order to be able to benefit from the open borders and to maintain the company’s leading position, whilst facing intense competition in the market, the company should prepare for new brand acquisitions and invest more in new makeup innovations.

Scenario 2. Market adaptation
When there is free trade agreement between the EU and the UK but there are new regulations in the market banning the use of parabens, L’Oréal will benefit from the open market and will not have to pay extra tariffs in order to trade in the UK. However, when parabens are banned, the company must find a substitute for these chemicals in order to preserve the makeup products from growing mould and bacteria. As awareness increases about the use of non-chemical and organic-only makeup products, the company will be required to adapt to the market shift by producing products that fit the market’s criteria.

In order to maintain the profit levels of the company after banning the use of parabens and reducing the amount of chemicals used in makeup products, the company will be required to search for new suppliers that can provide cheap natural makeup preservatives.

Scenario 3. Economic slowdown
According to this scenario, if there is no free trade agreement made between the EU and the UK after Brexit, and if there are no new regulations regarding the use of parabens in makeup products, the company will have to comply with the new trade agreement and laws set by the EU and the UK. If both markets do not agree on a free trade agreement, the company will be required to pay reduced or full custom tariffs in order to trade in the UK. In addition to this, new economic issues will emerge if more member states withdraw from the EU, since the single market will be smaller, and more trade agreements will have to be agreed on in order to maintain the trade relationships between the surrounding countries and the single market.
L’Oréal must secure its trading position whilst maintaining its profit levels by preparing for negotiation strategies through lobbyist organisations that help to communicate with politicians regarding their laws and decisions in the EU (EU Integrity Watch 2018). This can be an attempt to influence the new laws in case the new trade agreement between the EU and the UK applies tariffs (European Commission, 2018).

Scenario 4. Stagnation
This scenario occurs when there are new regulations regarding the use of parabens in makeup products, in addition to tariffs for companies moving their goods from and to the UK. This would affect the market as a whole, due to the lack of direct foreign investments done in the EU single market from and to the UK, which would result in decreased levels of employment. In order for companies to maintain their profit levels despite the increased costs of goods, they will be required to increase the prices of makeup products. Consumers will find it difficult to keep pace with the new prices in the market, thus the demand for the makeup products will decrease and revenues will drop.

In this case, L’Oréal will be required to invest more in research and development in order to develop natural preservatives for its makeup products, rather than purchasing them from other suppliers. This would guarantee a consistent method of producing their own natural raw materials without being affected by supplier power after a ban on the use of parabens.
5 Conclusion

The makeup market is influenced by trends and factors that have a significant impact on its future performance. Revenues and profitability of the companies in the market are in result influenced by, for instance, the change of demand, the increased competition, new production facilities, the economic situation as well as fiscal and monetary policies’ changes. Ignoring these changes can therefore weaken the companies’ position in the market.

This paper identified the macro environmental factors in the makeup market. Those can be categorised as; social, such as, the increased interest in the makeup products in the market, and the increased demand on the makeup products by millennials. Technological factors, such as, the technological development and its impact on the production systems of the companies in the market. Economic factors, such as, the gap that Brexit will create in the EU single market. Ecological factors, such as, the use of chemicals that harm the environment and the human body, as well as the increasing climate temperature caused by the production facilities. Finally, political, such as, the possible regulations regarding the use of chemicals and the greenhouse gas emission.

The outcomes of those trends can be characterised by their certainty and uncertainty. The trends that carry uncertain outcomes were put under the spotlight in order to create different scenarios of the outcomes that the market might face. It was found that those uncertainties may limit the movement of the goods from the EU to the UK after Brexit. Additionally, the costs of goods sold might increase for the companies if the EU sets new regulations regarding the use of chemicals in the makeup products.

Due to this paper’s limitations, and since the analysis conducted earlier focuses merely on a specific type of trends. One cannot assume that these emerging macro environmental factors are the only ones that affect the market, rather, there are other types of factors along with the emerging trends that contribute in resulting greater changes. To sum up, emerging trends influence the market growth and trigger shifts in the market performance, some of those future changes have uncertain outcomes, which obliges companies to be aware of different scenarios and to track early indicators of changes in order to adjust their future strategies.
References


