

# Analysis of Cost Leadership Strategy in Cosmetic Industry

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## Abstract

The Skincare and wellness Industry is rising in Indonesia. According to Badan Pusat Statistik, the cosmetic industry in Indonesia grew by 7% in 2021, and one of the most successful brands is Wardah. Wardah's commitment to always prioritizing the halal factor in every product and using cost leadership strategy, helped Wardah to become one of market leaders in Indonesian cosmetic industry. This research is conducted with a descriptive research study to analyze the effectiveness of Cost Leadership Strategy adopted by the cosmetic industry in Indonesia. As a Muslim dominant country, the needs of halal products are a necessity. And that is how Wardah caught that opportunity to establish their brand as the pioneer of halal cosmetics in Indonesia. The combination of strategies adopted by Wardah shown to be effective as the market share data has proven Wardah as top cosmetic brand in Indonesia.

## Keywords

Cosmetics, Strategy, Cost Leadership, Firm Competitiveness and *Halal*.

## 1. Introduction

The skincare and wellness industry are rising in Indonesia, along with the increase of Indonesian' willingness to put more consideration into taking care of their skin health. Especially during the pandemic that has been occurred in recent years, which has triggered some people to spend most of their activities inside home. And skin care is one of the most favorable activities to do at home during a pandemic. According to Badan Pusat Statistik, the cosmetic industry in Indonesia grew by 7% in 2021. With the increasing use of cosmetics, the cosmetic industry is growing and become more competitive. The concept of competitiveness at the national level can be used as a policy strategy in building economic strength through the integration of macroeconomic policies that play a role in strengthening national competitiveness (Wibowo and Nurcahyo 2020).

Cosmetic purchasing is getting more convenient thanks to online marketplaces and the intensity of social media campaigns done by cosmetic brands (Laporan Tahunan Direktorat Pengawasan Kosmetik 2020). And the ability of local cosmetic brands to be more innovative and creative are the main factors of this increasing growth rate. Decision making in purchasing halal cosmetic brands is influenced by knowledge about halal, halal awareness, and the brand image of a product (Sholikhah and Mahanani 2021).

According to data from the Top Brand Index in 2022, one of the cosmetic brands that occupies the 5 most popular cosmetic brands in Indonesia is Wardah. Wardah is the pioneer of halal beauty product brands in Indonesia. Product quality, service, lifestyle and beauty advisors influence the purchasing decisions of Wardah cosmetics in Indonesia

(Amballia and Saputri 2021). According to previous literature studies, in the implementation of ISO 9001: 2015 Quality Management System which includes organizational leadership, customer needs, disability prevention, continuous improvement and supplier quality management have a positive impact on operational performance and business performance in the manufacturing industry in the country (Wibowo and Nurcahyo 2021). By bringing the concept as halal cosmetics, Wardah is increasingly popular in this country which has a Muslim majority population. Every year, Wardah is able to produce 135 million different types of cosmetic products.

Wardah's commitment to always prioritize the halal factor in every product is realized from the research, development, to production processes. Halal in this case means that Wardah only uses raw materials that are safe for the skin and according to Islamic law, and have a production process that is in accordance with Islamic law and does not hurt other living creatures. This concept is always applied to all factories that produce various product lines, starting from makeup, skin care until hair care.

Three of Wardah's most popular products in the Indonesian market are face powder, lipstick, and blush on. The price of the products below Rp.200.000,- Wardah cosmetics are affordable cosmetics from students to people who are already working. Wardah's type of market positioning is included in one of Porter's Five Generic Strategies, namely Cost Leadership. Wardah's success in achieving this for almost 20 years can be seen from finding gaps in the country's cosmetic market to transforming into a major market leader, not only in the Muslim community.

Strategic plan is an important part of the manufacturing process. The dimensions of manufacturing strategies in getting competitive advantage have been developed. There are four important factors, which are shipping, quality, flexibility and costs need to run together by improving manufacturing capabilities in establishing manufacturing strategies (Nurcahyo et al, 2019). According to Porter, organizations can use any of three strategies to achieve their competitive advantage: Cost Leadership Strategy, Differentiation Strategy, and Focus Strategy. Cost Leadership Strategy focuses on producing standardized products at a very low cost for customers who prioritize low product price. There are two types of Cost Leadership, the first type is a Low-Cost Strategy that offers product and service at the lowest price. The second type is a Best Value Strategy that offers product and service with the best price value compared to its rival's. Both strategies target a large market and wide range of customers (David 2011).

The purpose of this research is to explain the details of the company's strategy and implementation of Wardah's Cost Leadership Strategy. In doing this research, researchers try to compare Wardah's strategy to other cosmetic brands and how the company's strategy selection affects business performance. This research was only conducted on local cosmetic brands in Indonesia because the researchers focused on the Indonesian market. From this research, we hope to find the most suitable company strategy for the Indonesian cosmetic industry and help it to continue to grow.

## **2. Literature Review**

### **2.1 Strategy**

Strategy is a development of the different and mutually beneficial activities of competitors. In providing benefits, companies need to create compatibility between company activities by complementing each other and providing added value for customers. By creating a good strategy can result in achieving a competitive advantage over competitors. Thus, the company can create a unique position for the company that exists in its industry position (Porter, 1996). A successful strategy needs to empower the organization to operate in one broad direction through the integration of the plans, objectives, policies and programs that the organization operates (Dobson et al 2004).

In implementing a business strategy, it is necessary to choose appropriately and be sensitive to future threats. There is a strong correlation between the company's business strategy, the environmental uncertainty that occurs as well as financial and non-financial performance (Kurniati and Nurcahyo 2018). Companies need to be fast and responsive to rapid changes in order to minimize negative impacts that will occur.

### **2.2 Cost Leadership Strategy**

Cost leadership involves being a low-cost company in an activity and can be operationalized as low input costs, economies of scale, experience, product / process design, and low prices (Johnson et al 2011). Firms implementing a cost leadership strategy appear to have average performance compared to all other (but not the lowest) clusters. The

implication of these findings is the possibility that cost leadership, in a competitive environment, has average performance because they are not focused on acquiring new markets or customers (Atikiya 2015).

The cost leadership advantage is claimed to be rooted in both scale economies and the experience curve (Makadok 1999). This cost leadership advantage might combine its effects with the pioneering advantage. Pioneers are likely to be the best positioned to achieve scale economies and to outperform future competitors (Regis and Rodolphe 2004). It is sometimes argued that cost leaders compete in markets primarily by charging prices lower than their competitors. For example, in Porter's (1985) framework — in which the cost-leader firm produces a 'standard, or no frills' product and the differentiator firm produces a 'unique' product — the differentiator firm is able to charge a price premium, while the cost-leader firm competes through a lower price (Besanko et al 1996).

Cost Leadership, alternatively, creates excess returns by providing a basic, or commodity level, product at the lowest cost of production. Firms following this strategy accept cheaper components, use standard production processes, and seek high market share in order to reduce unit costs (Phillips et al. 1983). Many customers will accept lower quality for a substantially lower price, and the firm which can optimize its production efficiencies can generate larger margins in a price taking business (Wolf D et al. 1993).

### **2.3 Firm Competitiveness**

Competitiveness is a multidimensional concept. It means different to different people depending on the context and level. It can be looked at three different but interrelated levels: Country, Industry and Firm level. Competitiveness originated from the Latin word, *Competere*, which means involvement in a business rivalry for markets. In simple terms, it is the ability to compete. It has become the name of the game today to describe the economic strength of a country or industry or firm with respect to its competitors in the global market economy in which goods, services, people, skills and ideas move freely across geographical borders (Murths 1998).

The concept of competitiveness is closely tied to Michael Porter's seminal work (Porter, 1990), and it is considered as a multi-tier and multifaceted idea (Solvell 2015; Bhawsar 2015; Chikan ' et al. 2018). Porter (1990) presents the outcomes of a national level competitiveness inquiry on outstanding performance of firms and their industries in different countries. His diamond framework demonstrates explanatory factors, which enable firms to compete successfully in their international industries.

Firm level competitiveness was a synonym of business performance in strategic management (Guerras-Martin et al. 2014) when the role and impact of functional strategies (like production and operations management areas) were investigated (Avella et al. 2001; Demeter, 2003).

For providing customers with greater value and satisfaction than their competitors, firms must be operationally efficient, cost effective and quality conscious (Johnson 1992; Hammer and Champy 1993). Also related to this condition are a number of studies focusing on particular aspects like marketing (Corbett and Wassenhove 1993), Information Technology (Ross et al. 1996), quality of products (Swann and Tahhavi 1994), and innovative capability of firms (Grupp et al. 1997).

### **3. Methodology**

A descriptive research study is used in this research with the objective to analyze the effectiveness of Cost Leadership Strategy utilized by a local cosmetics company. This study also analyses how halal identity promoted by local cosmetics companies has the leverage to attract more customers in the market to gain and retain competitive advantage.

Case study research is a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (e.g., observations, interviews, audiovisual material, and documents and reports), and reports a case description and case-based themes. For example, several programs (a multi-site study) or a single program (a within-site study) may be selected for study. Case Study research involves the study of an issue explored through one or more cases within a bounded system (Creswell 2007).

Procedure for conducting a case study, several procedures are available for conducting case studies, first, researchers determine if a case study approach is appropriate to the research problem. Second, researchers conduct an extensive identification of their case or cases. These cases may involve an individual, several individuals, a

program, an event, or an activity. The data collection case study research is typically extensive, drawing on multiple sources of information, such as observations, interviews, documents, and audiovisual materials. The type of analysis of these data can be a holistic analysis of the entire case or an embedded analysis of a specific aspect of the case. Finally, in the interpretive phase, researchers report the meaning of the case, whether that meaning comes from learning about the issue of the case (an instrumental case) or learning about an unusual situation (an intrinsic case).

### Data Collection

Researchers have managed to collect annual report data of some local cosmetics brands to compare how big is their market share in the local cosmetics market ranging from 2015 until 2021. It's shown in Figure 1 that Wardah has the biggest market share from 2015-2021. In the Figure 2, showed market share of cosmetic types of Wardah, there are face powder, lipstick, lip gloss, mascara, blush on, eyeliner, eyebrow pencil.

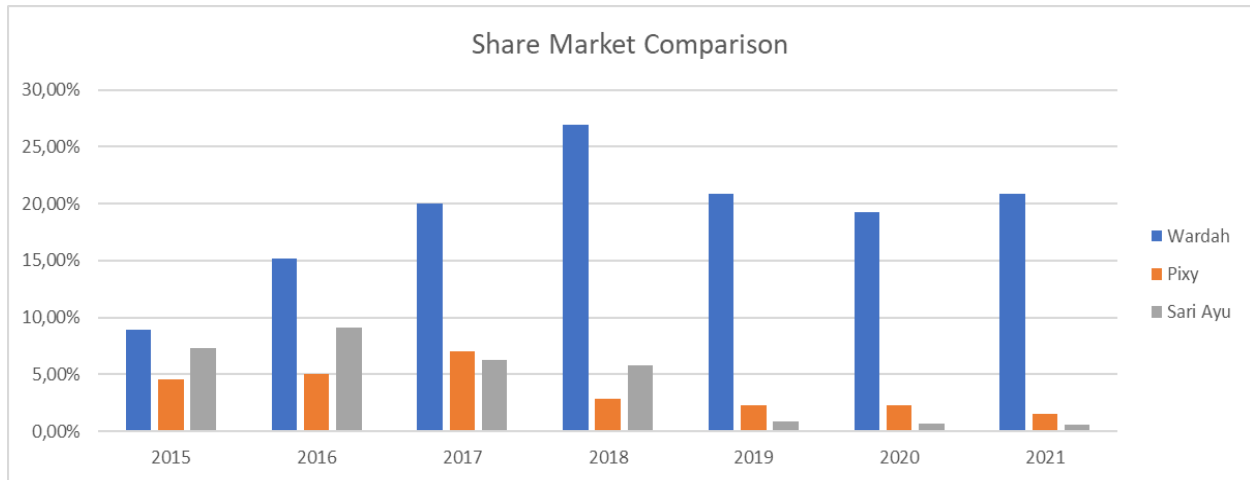


Figure 1. Share Market Comparison 2015 - 2021

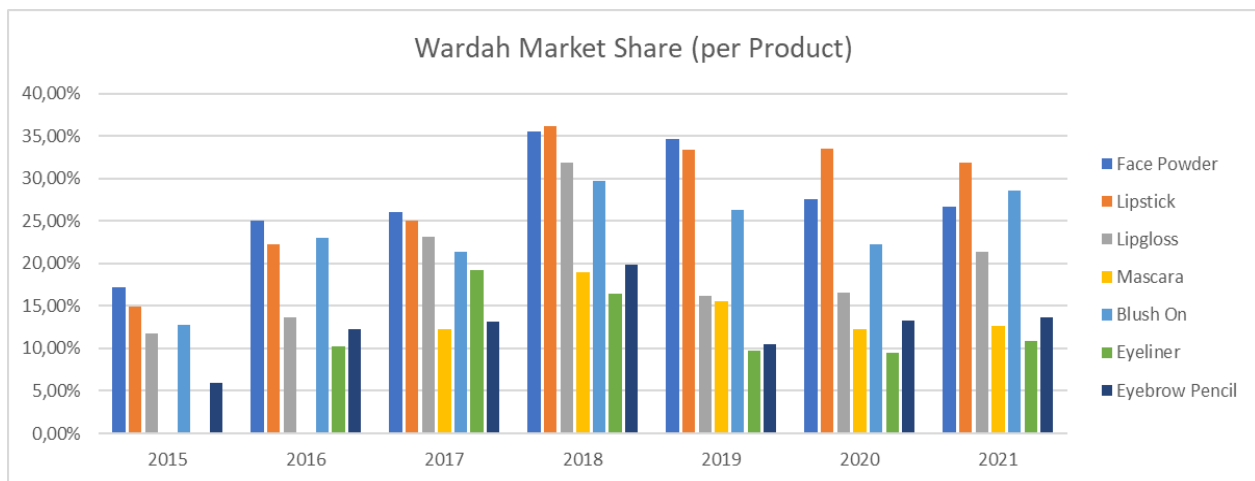


Figure 2. Wardah Market Share (Per Product) 2015 – 2021

Based on Figure 2, it shows that face powder, lipstick, and blush on have the biggest market share amongst other Wardah's products. Those 3 products are the main cosmetics that are frequently used by customers for daily makeup. With the price ranging from Rp. 35.000 until Rp. 65.000 as shown in Table. 1 and the market share shown in Figure1, Wardah has shown the effective adaptation of cost leadership strategy.

Table 1. Price Range of The Wardah Most Popular Products

No	Product Name	Price Range
1	Face Powder	Rp. 35.000 - Rp. 65.000
2	Lipstick	Rp. 40.000 - Rp. 50.000
3	Blush On	Rp. 40.000 - Rp. 60.000

## Result and Discussion

Cost leadership strategy has been widely used by firms to position themselves in a market. The Cost Leadership strategy adopted by Wardah allows them to have a competitive advantage compared to other cosmetic brands in Indonesia. In addition, each company is encouraged to keep maintaining an innovation culture which will make them stand out in the market amongst their competitors. Wardah uses brand identity as the pioneer of halal cosmetics in Indonesia has proven to be their best marketing strategy which positions themselves to be one of top cosmetic brands in Indonesia.

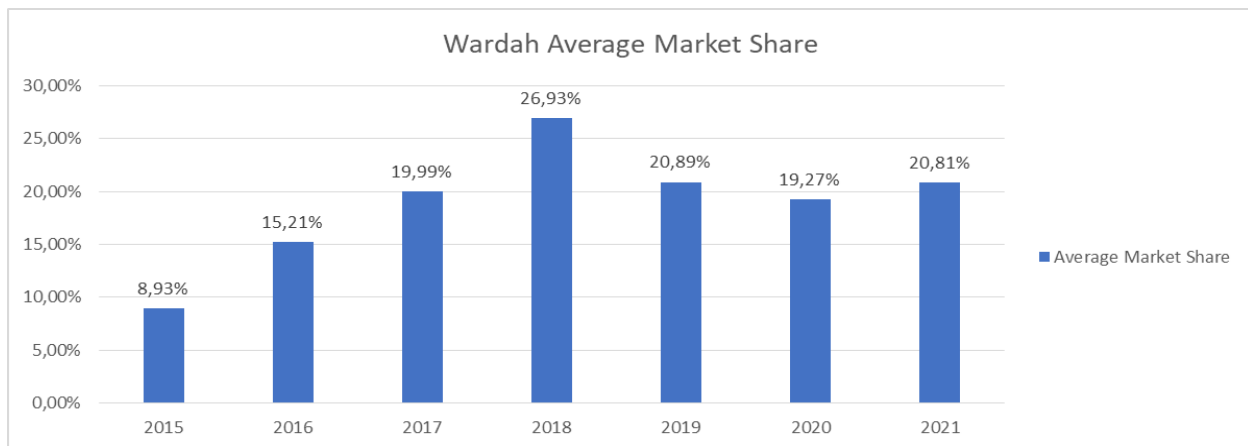


Figure 3. Wardah Average Market Share 2015 – 2021

Data gathered from Figure 3 shows Wardah' average market share percentage ranging from 2015-2021 which is 18,86%. The biggest market share of Wardah happened in 2018 with the number of 26,93%.

The key to the success of the Wardah in running their business the three main strategies and principles applied namely:

1. Wardah products contain raw materials that are safe and halal for the skin, even though they are labeled halal, Wardah is not only for muslim but also all people can use their products.
2. Based on Brand Wardah's experience from year to year in cosmetics, it has made its products the choice of many women in Indonesia. Wardah is growing innovative and creative in answering every woman's cosmetic needs without leaving the element of halal.
3. Every new product from the Wardah brand is made as a result of modern technological processes and is under the supervision of beauticians and dermatologists.

Firm competitiveness also helps a brand to leverage their sales. It is encouraged for every company to not only rely on cost leadership but also considering the adaptation of firm competitiveness so that companies could reach the growth they have targeted by having some advantages their competitors could not imitate.

## Conclusion

Wardah is one of the brand cosmetics in Indonesia that implements a Cost Leadership Strategy. Wardah is a pioneer of halal cosmetic brands in Indonesia by using the safe material for skin and according to Islamic law. According to data from the Top Brand Index in 2022, one of the cosmetic brands that occupies the 5 most popular cosmetic

brands in Indonesia is Wardah. According to data, Wardah's average market share percentage ranges from 2015-2021 which is 18,86%. The biggest market share of Wardah happened in 2018 with the number of 26,93%. Three of Wardah's most popular products in the Indonesian market are face powder, lipstick, and blush on. The three products are frequently used by customers for daily make-up with the price from Rp. 35.000 until Rp. 65.000. The key success of Wardah in running their business are the Wardah products contain safe and halal material for skin, Wardah more innovative and creative for developing the new products, and every new product from the Wardah brand is made as a result of modern technological processes and is under the supervision of beauticians and dermatologists. The firm competitiveness is also very helpful for a brand in increasing its sales and having some advantages their competitors could not imitate. The advantage of Wardah is a Halal Cosmetic in Indonesia that is able to answer the needs of the Indonesian market.

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## Biographies

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