

# Indonesia:

## Personal Care & Cosmetics Products

### Executive Summary

As Southeast Asia's largest economy, with a GDP of US\$ 888.5 billion, a population of 250 million and rising incomes, analysts predict that Indonesia will emerge to become one of the top five markets for cosmetics in the next 10 to 15 years.

After sustaining 5% average annual GDP growth over the last decade, growth slowed in 2015, but is projected by the World Bank to reach 5.1% for 2016. President Joko Widodo (known as "Jokowi") took office in October 2014 and has pledged to diversify the economy, and reduce barriers to doing business in Indonesia as a means to increase the country's GDP growth rate to 7% by 2017.

Increases in income levels, due to a higher employment levels and minimum wages and urbanization is supporting a growing middle class, who are increasing their budget for consumer products. Correspondingly, the demand for personal care and cosmetics, and particularly skin, make-up and hair-care products, witnessed rapid and consistent growth of 10-15 percent per annum. In the middle and low-end market segments, domestic manufacturing comprises over 50% of the market and is dominated by international brands including Unilever, L'Oreal and Procter and Gamble. However, as consumers expectations and incomes rise, there is a growing demand for imported niche and premium brands. In 2012, the government reported that imported personal care products and cosmetics lead in product registrations, growing more rapidly than any other imported consumer product.

U.S. branded products are highly regarded in Indonesia for their quality and reputation, and Indonesia's appetite for e-commerce has further facilitated these products entry, particularly in the capital Jakarta and other Tier 2 urban markets, with US imports increasing from 2% to 3% of total imports in 2015. Top prospects for U.S. products include make up, skin and hair care products.

With the world's largest Muslim population, there is increasing interest in Halal products and local brands such as Wardah have been the quickest to leverage this trend. In 2015, Indonesia passed a new Halal regulation that may require all cosmetics as well as a number of other consumer products to be Halal. How Indonesia will define Halal, and if it will allow in products in these segments that are labeled as non-Halal has yet to be determined, but if it follows international norms in other Muslim countries this will require that the products not contain alcohol or ingredients from animals. Indonesia consumers are also following the global trend of increasing preference for "natural" products, with herbal and organic formulations among the fastest growing segments, particularly in premium products.

### Overview of the Domestic Market

#### *Size and Growth Trends in the Domestic Industry*

Indonesia has approximately 760 manufacturers producing numerous cosmetic products, employing 75,000 people and sustaining an additional 600,000 jobs in related industries nationwide. These

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producers are mostly cottage industry level producing affordable cosmetics, soaps, lotions and skin care products. In terms of 2015 total domestic sales, Unilever Indonesia, Procter & Gamble Home Products Indonesia and L'Oréal Indonesia represent 50% of product sales.<sup>1</sup> The longstanding presence of these companies is fuelling consumer interest in international beauty and personal care brands, which are perceived as being of higher quality. Many of these companies operate licensed manufacturing facilities in Indonesia including Revlon (produced by PT. Rudy Soetadi & Co. Ltd.), Ponds, Vaseline and Dove (produced by PT. Unilever), and L'Oreal (produced by PT. Yasulor). Among the leading national cosmetic companies are PT. Martina Berto Tbk. (brand: Sari Ayu), PT. Mustika Ratu Tbk., PT. PT. Paragon Technology & Innovation (brand: Wardah Cosmetic), and PT. Ristra Indolab. They produce color make-up, traditional herbal and non-traditional skin care treatments.

According to data from the Ministry of Industry, domestic sales of cosmetics products totaled IDR 11 trillion or US \$818 million in 2015. Two of the fastest growing product categories include make-up and skincare, as more and more Indonesian women, generally known to be beauty-conscious and aspirational for flawless, fair complexions, are able to afford these items.

**Table 1: Overview of Indonesia's Personal Care and Cosmetics Trade Flows, US\$ Millions**

	2013	2014	2015
Total Imports	\$1,291	\$1,196	\$1,128
Local Production Exports	NA	NA	NA
Local Consumption	NA	NA	NA
Exports	\$1,898	\$1,846	\$1,126
Imports from U.S.	\$19	\$29	\$31

Sources: Total Imports and U.S. Imports, TPIS; Badan Pusat Statistik (BPS) unofficial export estimate

### **Consumer Profile**

Given its population of over 250 million and rising incomes, analysts predict that Indonesia in the next 10 to 15 years that Indonesia will rise to the top ten markets Asian markets for cosmetics. Of this population, 12-15 percent are estimated to be in the middle-high income range. These are people who can afford to buy imported products. These high-end consumers are concentrated primarily in urban areas. For this group, quality, trends and brand names play an important role in their personal choices.

Distributors notice that products with labels printed "Made in USA" appeal more to consumers. Middle-aged consumers exhibit strong preferences and they tend to become loyal to one brand. Reputation and name recognition continue to drive their cosmetic purchases. Young consumers are more inclined to shop around, use different products, and select from different brands. High-end consumers are willing to pay a higher price for well-known branded products, which convey higher social status. The middle and lower level income groups are very price conscious and susceptible to economic swings.

<sup>1</sup> Euromonitor. Beauty and Personal Care Market Report. Indonesia. 2015.

Indonesians nowadays are increasingly image and fashion conscious. Daily make-up has become a basic need among working women. While women continue to be the dominant consumers of cosmetic products, sales to the male market segment are steadily increasing. The younger generation has also become regular users of cosmetics and skin care products.

Consumer spending increases during holiday seasons, such as Lebaran or Idul Fitri (Muslim celebration), Chinese New Year and Christmas. Stores take advantage of these times of the year as demand increases during these festive seasons.

Men's cosmetics and personal care are becoming popular and the potential is large. Men's personal grooming products have shown an increase in recent years, a sign that this segment of the Indonesia cosmetics market is growing. Most men's cosmetics are sold in department stores and through multi-level marketing companies.

Business sources predict that the market size and sales for skin care products will continue to increase due to the growing awareness of the value of skin-care treatment for both males and females. An increasing number of men, as well as working women, are more concerned about their skin care, driving the demand for male-oriented products, as well as anti-aging and skin whitening products. The market for both local and imported anti-aging and whitening products still shows growth potential.

### ***Distribution Channels and Marketing***

In distribution, consumers' purchasing channels have shifted from traditional trade such as privately run shops to modern trade such as chain stores and other organized retailers. This has led to a fierce rivalry between global and local firms as they compete to maintain sales of standard products and run effective sales promotion.

In Indonesia, personal care and cosmetics are sold through specialty stores, drug stores, department stores, supermarkets, direct marketing (MLM), skin care clinics, and beauty salons. Speciality stores have made their way to Indonesia largest cities, including Crabtree & Evelyn, Kiehl and Sephora. Direct marketing continues to be popular in Indonesia, with their companies positioning as healthy life style brands, offering cosmetics, supplements and other related products, with top brands including Amway, Nu Skin, Tahitian Noni, Sunrider, Forever Living, Herbalife, Jeunesse, and Oriflame.

While mass market personal care brands from global giants such as Unilever and P&G are quite popular and widely available at warungs (traditional mom and pop stores), drugstores, convenience store chains, minimarkets and supermarkets, a variety of imported prestige and niche cosmetics brands are gaining a stronger foothold as urban-dwelling, working class women are keen to spend more on premium, up-market products.

According to the Jakarta Post newspaper, Indonesian cosmetic products marketed through social media like Instagram and Facebook, are unsettling established major players like Mustika Ratu and Martina Berto to move out from their comfort zones and stay competitive as new names have begun to disrupt the landscape.

Well established local brands such as Polka, By Lizzie Parra (BLP), or Rollover Reaction have increased their popularity cosmetics enthusiasts through creative campaigns, leveraging social media including Instagram and Facebook. Polka, for instance, relies heavily on the digital world to sell its products. The

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company believes that online marketing is the best tool to reach what it calls a “borderless market”. Its lip lacquer — a liquid lip color that creates a glossy look — hit the market last year and has sold like hotcakes among teenagers

The growth in the e-commerce market in Indonesia will continue its upward trend in the years ahead. Indonesia is one of the biggest online markets worldwide, with 93 million online users, and this number is expected to grow at an average rate of 10% through the end of 2020, to reach over 130 million Internet users.

**Product Trends**

Indonesian consumers are attracted to branded products. They also tend to be image conscious. Brand loyalty is most likely gained by quality with good packaging, distribution, promotion, and pricing.

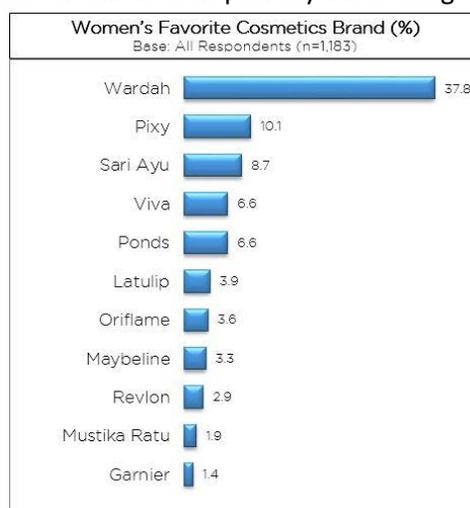
The median age in Indonesia is 30.5.<sup>2</sup> Indonesia women tend to follow fashion and cosmetics trends in other Asian countries, particularly Singapore, Hong Kong and increasingly Korea. According to industry sources, products that are popular in Singapore would have good prospects in Indonesia.

In Indonesia, similar to many other Asian countries, skin and hair are the two aesthetic qualities most highly valued. Accordingly, skin and hair care are the two largest categories of product sales, with over 20% of the market. Products which cater to Indonesia’s local climate and cultural traditions, addressing strong sun, high humidity and urban pollution, as well as the requirement of regular face washing ahead of frequent daily prayers fare well. For many consumers products need to have stronger fragrances, higher SPF protection and be waterproof. In skin care, there is demand for products that even skin tone and whitening agents.

Since the cosmetics market in Indonesia is highly competitive, the creation of a strong brand through promotion is recommended for substantial entry into the market. Successful products tend to contain unique formulas or ingredients not available in Indonesia. In addition, a strong marketing campaign and advertising play a major role in promoting awareness of products and brands and in expanding market reach. Business sources indicate that cosmetics companies use print media as their primary advertising channels to promote imported cosmetics.

As the largest Muslim population, it is no surprise that halal cosmetics have caught on in Indonesia. While adherence to halal food has been a mainstay for the local Muslim population, adoption of halal cosmetics is a relatively newer phenomenon. For a product to be halal, it should not contain alcohol, should not be tested on animals, and should not contain ingredients from animals. There is also an increasing preference for herbal and organic products, as consumers become more health-conscious and opt for safer, chemical-free treatments.

According to MarkPlus Insight Women Survey 2015 which shows that Wardah – which positions itself as a Muslim-friendly, halal cosmetics brand – was named the most popular cosmetics brand for women. Apart from Wardah, Sari Ayu too



<sup>2</sup> CIA Factbook. Available online at <https://www.cia.gov/library/publications/the-world-factbook/>.

is certified halal.

The wide stratification of pricing in Table 2 reflects the differing product requirements and income levels in Indonesia's rural and urban markets.

**Table 2: Representative retail prices for the following products (US\$)**

Products	Mass Market		Premium	
	Low	High	Low	High
Perfume	\$3.46	\$7.62	\$35.31	\$134.62
Lipstick	\$2.69	\$7.54	\$10.77	\$38.08
Eye Shadow	\$2.69	\$7.23	\$16.54	\$57.69
Mascara	\$3.46	\$6.85	\$18.08	\$42.31
Sunscreen	\$2.69	\$14.62	\$17.31	\$57.69
Bronzer/Blush	\$3.46	\$11.46	\$15.38	\$34.62
Skin Cream	\$2.69	\$21.15	\$38.46	\$230.77
Shampoo/Conditioner	\$2.31	\$11.54	\$15.38	\$26.92
Hair Styling Product	< \$3.85	\$3.85 - \$11.54	\$11.54 - \$23.08	> \$23.08
Deodorant	\$1.92	\$3.85	\$6.08	\$25.08
Nail Polish	\$2.69	\$5.00	\$9.62	\$23.08
Shaving Prep	\$0.00	\$6.54	\$7.69 - \$23.08	> \$23.08

Source: US Department of Commerce, International Trade Administration Field Research

## Overview of the Domestic Market

### Imports

Indonesia imported \$1.12 billion of personal care and cosmetic products in 2015, a 13% decrease from 2014. Given that overall domestic cosmetics consumption continued to increase this may be due to increasing national production of both foreign and increasingly popular local brands, including products targeting the halal market.

**Table 3: Imported Products Share of Indonesia's Import Market**

Importing Countries	2013	% Market Share	2014	% Market Share	2015	% Market Share
US	\$19	2%	\$29	2%	\$31	3%
France	\$116	9%	\$108	9%	\$91	8%
Japan	\$69	5%	\$55	5%	\$60	5%
South Korea	\$11	1%	\$11	1%	\$14	1%
Thailand	\$313	24%	\$313	26%	\$215	19%
China	\$179	14%	\$183	15%	\$171	15%
Other	\$583	45%	\$496	41%	\$546	48%

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Countries						
<b>Total Imports</b>	\$1.3	100%	\$1.2	100%	\$1	100%

Data Source: TPIS

### **Imports**

Among imported products, Thai and Chinese companies have the highest levels of imports and cater primarily to the mass and masstique markets. Chinese products are perceived as affordable, with high quality natural ingredients that are traditional to Asia. There are also a number of illegal imports and counterfeits on the market, coming primarily from China. Thailand was the largest exporter of skin care products and shampoos to Indonesia, accounting for 11% of the total imports in 2015. Imported products, as compared to international brands manufactured in Indonesia, primarily occupy the premium market and with Japanese, European and American products the most popular. International brands found in the market include Guerlain, L'Occitane, La Prairie, ROC, Clarins, L'Oreal, Yves Saint Laurent, Givenchy, Nivea, Oriflame, Seba Med, Shiseido, Kanebo, SK-II, and Kose.

Local cosmetics brands are mostly represented by Mustika Ratu, Martha Tilaar, and Wings. Japanese companies also managed to stay competitive in the Indonesian market, with Kao being one of the top players in the face care and Mandom in make-up and fragrance.

U.S. products accounted for three percent of Indonesia's imported personal care and cosmetic products in 2013, a 1% increase from prior years, even while overall imports declined by 13%. This official number likely understates the percentage of U.S. imports by several percentage points as many U.S. products are shipped through Singapore. U.S. products are also manufactured in other ASEAN countries and exported to Indonesia. At 43%, skin care products represent the largest share of U.S. exports and continue to exhibit high growth, up 23% in the last three years. Hair Care products are the second largest segment at 8% of U.S. exports and 20% growth. There is also growth in color cosmetics, with lip stick especially popular. Consumers' acceptance of U.S. products is fairly high and they are well positioned in the Indonesian market. U.S. products include: Procter & Gamble, Clinique, Obagi, Estee Lauder, MAC, Elizabeth Arden, Revlon, Neutrogena, Cover girl, Olay, H2O, Bath & Body Works, and Victoria's Secret. Some of the products used in beauty parlors are Murad, Sothys, Dr. Cos, ROC, DuraSkin, and Miracle White.

Imports from Southeast Asian neighbors, including Thailand, Vietnam, Malaysia and Singapore are growing in the wake of free trade agreements under the ASEAN Harmonized Cosmetic Regulatory Scheme, which makes imports mutually recognized by national authorities, as long as they are registered in any one of the member states. The importation of personal care and cosmetics into Indonesia still requires approval from BPOM, which can be done by local agents or distributors.

### **Top Markets/Opportunities Specific to US Products (Ranked – estimate only)**

1. Hair shampoos, conditioners and treatments – to maintain healthy hair and prevent hair loss
2. Skin Care: anti-aging creams, whitening lotions, masks, and products that protect, nourish and rejuvenate aging skin
3. Hair coloring products
4. Body treatments, slimming treatments professional skincare salons
5. Skincare products for men
6. Nail colors, nail-care products, artificial nails, soft nail gels

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7. Color cosmetics, BB and CC creams, & eye liner

See the following tables for more information on the U.S. and competing countries exports to Indonesia:

**Table 4: Indonesia Total Personal Care and Cosmetics Imports**

**Table 5: Indonesia Imports of Personal Care and Cosmetics Products from the U.S.**

**Table 6: Indonesia Imports of Personal Care and Cosmetics Products from France**

**Table 7: Indonesia Imports of Personal Care and Cosmetics Products from the Japan**

**Table 8: Indonesia Imports of Personal Care and Cosmetics Products from South Korea**

**Table 9: Indonesia Imports of Personal Care and Cosmetics Products from Thailand**

**Table 10: Indonesia Imports of Personal Care and Cosmetics Products from China**

**Table 11: HS 34: Make Up Products, US Exports to Indonesia**

**Table 12: HS 35: Hair Care Products, US Exports to Indonesia**

**Table 13: HS 37: Cosmetic & Toilet Preparations, Inc Shaving, Bath Prep and Deodorants, US Exports to Indonesia**

#### Top Domestic Trade Fairs

**Cosmobeaute Indonesia**, [www.cosmobeauteindonesia.com](http://www.cosmobeauteindonesia.com) (held annually in October in Jakarta, Indonesia)

No. of Exhibitors: 270 from 17 countries as well as Indonesia (in 2015)

No of Registrants: 11,812 visitors mostly from Indonesia and 22 countries such as Afghanistan, China, Dubai, England, France, Germany, Greece, India, Italy, Japan, Korea, Malaysia, Mexico, Nigeria, Pakistan, Poland, Russia, Singapore, Taiwan, Thailand, Timor Leste and USA.

Product Mix at the trade show: Aesthetic & Wellness Centers, Beauty Schools, Beauty Salons, Department Stores & Supermarkets, Distributors/Wholesalers/Importers, Fitness Club, Hair & Nail Salons, Make-up Studios & Bridal Studios, Perfumery & Cosmetic Shops, Pharmacies & Chain Stores, Slimming Centers, Spa & Aromatherapy.

#### Regulations, Standards and Customs

There are no restrictions on importing cosmetic products to Indonesia. However, imported cosmetics must be registered at the National Agency of Drug and Food Control (Indonesian acronym BPOM). Registration of imported cosmetics can be done only by local agents or distributors that have authorization from overseas manufacturers. Import duties for cosmetic products are 15 percent. In addition, a value-added tax (VAT) of 10 percent is imposed on all imported cosmetic products. BPOM has taken tough measures on registration of imported cosmetics. The current registration process is slow, with indefinite time for results. This might impact the number of newly imported cosmetic products in the long run, as distributors may focus more on existing products in the Indonesian market.

BPOM regulates and controls the registration, distribution and quality of cosmetics. Imports of cosmetics must comply with Indonesian law. Sales of cosmetics products are regulated through the Directives to Register Cosmetics stated in the "Stipulation on Registration Implementation" and through the Decision of BPOM No. HK 00.05.4.1745, dated May 5, 2003.

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Manufacturers or importers must register all cosmetics whether locally produced or imported with BPOM. Likewise, the manufacturer or importer must fulfill the criteria for registered personal care and cosmetic regarding the safety, quality, packaging, and labeling of the products. Labeling must contain honest and complete information that is not misleading and must not contain unwarranted claims. Products should be of good quality, use proper manufacturing methods, and use only safe materials outlined by BPOM.

The Annex to this report provides an overview of the requirements to sell cosmetics in Indonesia, per the requirements of the ASEAN Cosmetics Directive. More on additional national requirements follows:

To register, cosmetic importers must submit an application form to BPOM which includes the following documents:

- **Authorization Letter (LoA):**

- Issued by the manufacturer, signed by director with company letter head and stamp of the company, authenticated by Authorized Government Office and respective Indonesia embassy, legalized by public notary, with '**minimum 3 years validation date**'.

- **Certificate of Free Sale (CFS):**

- Issued by the authorities or a recognized institution in the country of origin, legalized by the Embassy/Consulate General of the Republic of Indonesia and public notary.
- If product made in the USA, the CFS should be issued by PCPC (Personal Care Product Council) or ICMAD (Independent Cosmetic Manufacturers and Distributors).
- CFS must list all products that the Indonesian importer intends to register.

- **Good Manufacturing Practice (GMP) Certificate:**

- A statement by the manufacturer or company that the product was manufactured according ASEAN GMP Guidelines or any ACC approved equivalent GMP Guidelines.
- Excluding ASEAN countries, GMP must be issued by the authorities or a recognized institution in the country of origin and legalized by the Embassy/Consulate General of the Republic of Indonesia and public notary.

- **Hygiene License:**

- Certificate must be issued by Food & Drug Administration and legalized by public notary.

- **Qualitative and Quantitative Formula of the Product:**

- Issued by the manufacturer/principle, signed by Technical Manager with Company Letterhead and Stamp of the Company;
- List of all ingredients used in the products in qualitative as well as in quantitative with the total percentage of ingredients equaling 100%;
- Name of ingredients should be written in its universal generic name or universal specific name or in International Nomenclature Cosmetic Ingredients (INCI) with the detailed CAS Number;
- Specify the functions of each raw material / ingredient;
- For fragrance ingredient should detail the name, name & address of supplier, have the fragrance code based on International Fragrance Association (IFRA)

On September 20, 2016, BPOM raided six illegal warehouses of counterfeit, fake and unregistered imported and locally produced cosmetics at Asemka Morning Market in West Java. This action came after BPOM conducted tests and found that the cosmetics contained dangerous chemical ingredients. BPOM continues to conduct regular samplings and post-market monitoring on all cosmetics in the market, including high-end and popular cosmetics. The organization has collaborated with customs to prevent illegal and harmful cosmetics from entering the country.

In addition, BPOM has taken tough measures on registration of newly imported personal care and cosmetics. Although the cosmetics law of 2003 is still in effect, registration is now more complicated, requiring additional documents and prolonging the processing time. This registration process frustrates the distributors and may affect new cosmetics imports as distributors concentrate on existing products and withhold new products.

### ***Halal Certification***

After six years of debate, the Government of Indonesia enacted the Halal Product Assurance Law No. 33 of 2014 (“Halal Law”) on October 17, 2014. According to this law, the government is required to issue the implementing regulations within two years and effectively implement the law within five years after it was enacted. This means that by 2019, halal labeling will be mandatory for all products circulated in Indonesia. Currently, the government is still discussing a Draft Government Regulation on the implementation of this law.

The Halal Law requires mandatory halal certification and labeling for food, beverages, drugs, cosmetics, chemical products, biological products, genetically engineered products, as well as consumer goods that are distributed or traded in Indonesia. The Halal certification is an important provision implemented by the Government of Indonesia to provide convenience, security, safety, as well as certainty for Indonesian customers; and to add more value to goods produced and sold in Indonesia. However, the wide scope and complexity of the Halal Law are of particular concern to various stakeholders, including businesses, sectoral associations and international chambers.

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