

# **Analysis of the Marketing Environment of the Cosmeceutical Industry Based on Porter's Five Forces Model and PEST Model—Take E, a well-known cosmeceutical company in China, as an example**

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## **ABSTRACT**

In recent years, with the continuous development of the global economy and the steady growth of per capita income, modern people's awareness of skin care has been continuously improved, and people's health awareness and recognition of medical cosmetology have been continuously improved. With the rise of consumption by a new generation of young people, the choice of light medical aesthetics has gradually become a trend. This paper analyzes the marketing environment of the cosmeceutical industry through Porter's Five Forces Model and PEST Model, and better shows the marketing development prospects of the industry, in order to better meet the service needs of consumers and have a more eye-catching development in the new market environment.

## **KEYWORDS**

Cosmeceutical industry; Porter's five forces model; PEST analysis; Enterprise development

## **1. INTRODUCTION**

Porter's Five Forces Analysis Model was proposed by Michael Porter in the early 80's and has had a profound impact on corporate strategy development on a global scale. It is mainly used for the analysis of competitive strategy, which can effectively analyze the competitive environment of customers. The five forces are: the bargaining power of suppliers, the bargaining power of buyers, the ability of potential competitors to enter, the substitution ability of substitutes, and the current competitiveness of competitors in the industry. The change in the different combinations of the five forces ultimately affects the change in the profit potential of the industry.

PEST analysis is a macro environment analysis method, which is composed of four factors: Political, Economic, Social and Technological, which is used to evaluate the macro external environment faced by a corporate group or industry. This analytical model helps enterprises understand and grasp the impact of changes in the external environment on corporate strategy.

## **2. PORTER'S FIVE FORCES ANALYSIS**

### **2.1. The buyer's Bargaining Power is Strong**

Buyers of cosmeceutical products are divided into indirect consumers represented by distributors and retailers, and direct consumers, mainly individuals and households. Among them, indirect consumers periodically order in bulk and have high loyalty, and have strong bargaining power. With the gradual improvement of people's living standards and the gradual enhancement of skin care awareness, the

demand for cosmeceutical products from direct consumers is increasing, the purchase frequency is rising, the cosmeceutical industry is developing rapidly, and the cosmeceutical market is expanding. Moreover, more and more direct consumers are paying attention to the price of cosmeceutical products, and at the same time, they are also beginning to pay attention to the efficacy and safety of products, and put forward higher requirements for products.

## **2.2. The Bargaining Power of Suppliers is Weak**

Cosmeceutical products are cosmetics with pharmaceutical properties, and the raw materials used in their production are mainly oil raw materials, powder raw materials and Chinese herbal medicines. Although the production, processing and extraction of many raw materials require certain high-end technology and advanced equipment, so that suppliers have bargaining power, but in the current situation, more and more raw material suppliers are entering the market and the quality of raw materials is uneven, and the competition between these raw material suppliers is fierce, so the bargaining power of raw material suppliers in the cosmeceutical industry is relatively weak.

## **2.3. New Entrants Intensify the Threat of Competition**

There is a certain threshold for entering the cosmeceutical industry, large companies have strong technology, cost advantages and brand effects in promotion, product development and marketing, etc., and consumer loyalty and brand characteristics set up potential capital needs, economies of scale, product differentiation and sales channels for new entrants in the industry. But at the same time, with the rapid development of the cosmeceutical industry, the development prospects of China's cosmeceutical market are broad, the investment in equipment to enter the cosmeceutical market is small, the personnel training requirements are not high, and the emergence of OEM has also reduced the entry threshold of the cosmeceutical industry to a certain extent, and new enterprises and multinational companies continue to pour into the Chinese cosmeceutical market, and the entry of new enterprises will carve up the market share of cosmeceuticals, making the competition in the industry more intense, and posing a great threat to the development of existing enterprises.

## **2.4. Substitutions are Less Threatening**

Cosmeceutical products have safe and reliable ingredients and the efficacy of medical cosmetic repair, and compared with some higher-priced medical aesthetic devices on the market, they are cost-effective, easy to use and easy to operate, and there is no suitable substitute for cosmeceuticals, so the cosmeceutical industry faces less threat from substitutes.

## **2.5. The Competition Among Existing Competitors in the Industry is Fierce**

At present, China's cosmeceutical industry is in a period of brand rise, and enterprises mainly focus on low-end products, and there are few high-end products, so the product homogeneity is more serious and the market concentration is low, while the rapid development of e-commerce platforms. In addition, the Regulations on the Supervision and Administration of Cosmetics promulgated by the State Council of China have been officially implemented since January 2021, which has carried out comprehensive supervision of the entire industrial chain from production and circulation to consumers. The optimization and upgrading of efficacy and safety have intensified the competition in the industry.

## **3. PEST ANALYSIS**

### **3.1. Political**

The new version of the Regulations on the Supervision and Administration of Cosmetics issued by China in June 2021 will come into force on January 1, 2021, and the corresponding normative supporting regulations such as the Specifications for the Publicity and Evaluation of Cosmetics Efficacy and the new version of the Catalogue of Prohibited Raw Materials for Cosmetics have been promulgated one after another, providing for registration and filing, production and operation, quality and safety, and efficacy publicity. Detailed regulations and standardized evaluations have been made, marking that the industry has gradually entered a more scientific era of strict supervision, especially strengthening the supervision of cosmetics with special effects such as cosmeceuticals, avoiding vicious competition caused by false and exaggerated publicity of their product ingredients and efficacy, which is conducive to the orderly operation of the cosmeceutical market and helps the industry to clear up.

### **3.2. Economic**

In recent years, in the context of China's rapid macroeconomic development, PCDI and CPI have increased year by year, and the cosmeceutical industry has flourished. At the same time, with the rapid development of the Internet, the channels and ways for people to obtain information have increased, driven by the boom of "beauty economy" and the development of online marketing promotion, the penetration rate and exposure of e-commerce platform software in people's daily life have been expanding, so that people's awareness of skin care and medical beauty products has been deepened, the demand has gradually risen, and the scale and growth rate of China's skin care market have shown a significant upward trend.

### **3.3. Social**

Affected by many factors such as environmental diet, work and rest habits, and life pressure, people's skin sensitivity, dryness and other problems emerge in an endless stream, and at the same time, wearing masks for a long time during the new crown epidemic has also aggravated people's skin problems to a certain extent. In addition, the rise of young consumers, their awareness of medical beauty and skin care, and the high importance of product efficacy, ingredients and safety, as well as the rise and development of medical beauty and the multiple needs for post-operative repair and skin care, have led to the development and upgrading of product development and upgrading in the cosmeceutical industry to a trend of functional skin care that takes into account safety.

### **3.4. Technological**

The rapid development of China's fine chemical industry, the rapid growth of the number of cosmeceutical enterprises, and the continuous improvement of scientific and technological strength have made more and more new technologies and new raw materials be applied to the cosmeceutical industry, promoting the technology of China's cosmeceutical industry to gradually integrate with international standards, and the monopoly of foreign brands is being broken. The market share of cosmetics products continues to expand, and the competition pattern of the industry is gradually optimized and improved. With the integration and innovation of science and technology, the chain of production, education, research and medicine has gradually expanded, and functional skin care products have become the terminal products of some scientific research achievements.

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