

SCENARIO PLANNING TO DEVELOP BUSINESS EXPANSION STRATEGIES IN THE SKINCARE INDUSTRY

Nurjihan Khairunisa ¹, Yos Sunitiyoso ²

^{1,2}School of Business Managment, Institute Technology Bandung

ARTICLEINFO

Keywords:

Scenario planning
Business expansion
Business strategy
Qualitative study
Skincare industry

E-mail:

nurjihan_khairunisa@sbm-itb.ac.id

ABSTRACT

The Indonesian skincare market is projected to grow at a CAGR of 8.9% from 2021 to 2026, with SMEs accounting for the majority of companies. PT XYZ plans to enter the market and increase its market share and profitability through product diversification. This study used scenario planning and qualitative research with 10 diverse stakeholders to explore strategies for business expansion in the skincare industry at PT XYZ. The results indicate that demand and technology are the most significant uncertainties influencing the market. The study offers recommendations for dealing with these uncertainties and implementing strategies in the future.

Copyright © 2023 Economic Journal. All rights reserved.

is Licensed under a [Creative Commons Attribution-NonCommercial 4.0 International License \(CC BY-NC 4.0\)](https://creativecommons.org/licenses/by-nc/4.0/)

1. INTRODUCTION

Beauty is a very broad perspective, with no specific standardization and every person has their own different standards of beauty. Thus, every individual is free to express their own definition of beauty. The BPOM (Indonesian Food and Drug Administration) has recorded a 20.6% increase in the number of cosmetics companies, with the number of industries growing from 819 to 913 from 2021 to July 2022. This increase in the cosmetics industry is dominated by SMEs (Small and Medium Enterprises), accounting for 83% [1]. Looking ahead, the sales of skin care products in Indonesia will be driven by the young population and post-pandemic economic recovery, which will encourage global firms to introduce high-end and cutting-edge products. As a result, it is expected that the Indonesian skincare market will grow at a compound annual growth rate (CAGR) of 8.9%, increasing from IDR25 trillion (\$1.7 billion) in 2021 to IDR38.4 trillion (\$2.5 billion) by 2026 [2]. The young adult population also known as Generation Z refers to individuals born between 1997 and 2012, this generation is more open to modern retail concepts and driving trends and has greater purchasing power. They are known for their heavy reliance on technology and social media, as well as their commitment to social and environmental causes [3]. In terms of skincare, this generation is likely to be more informed about the ingredients and effects of different skincare products and may be more interested in using natural and organic products. They may also be more likely to use social media to research and share information about skincare products and to seek out recommendations from friends and influencers.

However, Rapid changes in beauty trends can affect consumer demand and preferences for skincare brands. Uncertain market conditions can also impact the sustainability of skincare companies' businesses, such as economic uncertainty or changes in trade regulations that can affect demand and revenue. In addition, the skin care industry tends to be complex due to the many factors that must be considered in developing products, such as ingredients, technology, and proper usage. Furthermore, consumers have different preferences regarding skincare products, and the competitive landscape in the Indonesian skincare industry is quite tight.

PT. XYZ, operating in Jakarta, launched its first product in 2016, Lip and Cheek Cream, targeting urban users. The Indonesian skincare market is growing, but also has risks and challenges, including intense competition and economic uncertainty. The company needs to have a strategy to cope with these uncertainties, including scenario planning and utilization of various tools to assess success, such as purposive sampling, longitudinal case studies, quantitative methods, and multi-criteria decision-making approaches.

There are several risks in launching a skincare brand, namely the need for initial capital, releasing such initial capital will result in an increase in the company's expenses for developing and promoting new products, the risk of competition, thus there is a possibility of delay in return on investment if the skincare product is not well received by the market. Furthermore, there are several uncertain factors that affect the

level of success including intense competition, disruption, availability of inputs, and the choice of method or model. According to the above considerations, this uncertainty condition requires the company need to prepare its strategy. Scenario planning is designed by considering internal and external conditions to form a metric of possibilities in the present and future. The metric aims to help the company in strategic planning to have the dynamic ability to respond to a volatile environment in order to cope with the uncertainty of PT XYZ's success when entering this industry.

The success of business expansion has been measured using various tools in several studies. Some studies have used personal in-depth interviews [4], a longitudinal case study method [5], questionnaires and statistical analysis [6], and multi-criteria decision-making approaches [7]. Scenario planning has been found to be an effective approach for mitigating uncertainty and making strategies for business expansion. This method combines quantitative modeling with political, social, technological, legal, and stakeholder factors [8]. The use of scenarios enhances a manager's ability to understand external events and contribute to organizational learning and knowledge creation [9]. The framework for scenario planning that includes antecedents, processes, and outcomes [10]. The benefits of scenario planning, such as increased organizational adaptability, improved decision-making, and contributions to knowledge creation and organizational learning [11]. A contingency plan is a series of actions designed to help businesses respond to extraordinary events by making assumptions about what will happen in the future and how the business environment may change, which can be used to develop plans on how to respond to changes in business trends [12], [13].

2. METHOD

The data collected in this research consists of both primary and secondary sources. Primary data will be obtained through one-to-one Internet-mediated interviews using semi-structured, open-ended questions to elicit free-flowing perceptions from the participants about current and future conditions and driving forces in the skincare industry. The interviews will last approximately 45 minutes and will be recorded with the permission of the participants. The sample for the interviews will be selected through purposive sampling and will include Co-founders, Customers, Regulators, Beauty Vloggers, Competitors, a Dermatologist, a Reseller, and Representatives from beauty care chain stores. Secondary data in this research, Secondary data was gathered from institutional reports, books, academic publications, and articles on the internet.

The research design for this study is a descriptive qualitative approach, which aims to provide a rich and detailed description of the phenomenon under study and to understand the characteristics, experiences, and perspectives of individuals or groups of people. Qualitative research is an interpretive technique that seeks to capture the essence, rather than just the frequency, of naturally occurring events in society. In this study, interviews were used as the primary data collection method, as they allow researchers to gain in-depth insights into respondents' experiences, perceptions, and beliefs. Qualitative research is useful for understanding complex and multi-dimensional phenomena and can provide valuable insights for future research and decision-making [14] [15].

After conducting the interview, the answers of the interviewees in the form of coding, concrete events, and all interviews and any other interactions were documented. Content analysis was conducted to search for keywords related to driving forces and the implication of options. The following stage is to process the data by classifying it as verbal data which will be the primary component in creating scenario planning.

3. RESULT AND DISCUSSION

Analysis Result

The skincare industry in Indonesia is expected to experience ongoing growth in the next five years due to increasing demand and the influence of technology. The market for skincare products is large, with a population of females in various age ranges, and competition is intense with both local and imported brands vying for market share. To be successful in this market, companies must have strong branding and a unique selling point, as well as be able to adapt to changing consumer demand and technological advances. PT. XYZ has a strong local brand image and high-quality products, and its makeup products have received recognition. Leveraging the increase in skincare demand presents an opportunity for the company to increase profits and market share, but it must also navigate the challenges of a rapidly changing industry. In this section, we discuss the findings of the research consisting of the scenario, the risks and opportunities, and the strategy for each scenario.

Stage 1: Orientation

Key Focal Issue: Should the company expand its business in the skincare industry within the next 5 years?

Stage 2: Exploration

Critical uncertainty

After conducting interviews with 10 informants in various roles in the skincare industry, the results were coded and categorized by keywords. The most frequently mentioned category was then examined for its interrelationship using a causal loop diagram. A causal loop diagram is a tool used in systems thinking that allows for a comprehensive understanding of the complexities of organizational systems and can be utilized to address common[16]. The categories of technology and demand were identified as significantly influencing the other categories and being the driving forces among them. Demand influences competition, product efficacy, marketing activities, technology, product guarantee, and market growth. Technology influences product efficacy, competition, market growth, and marketing activities. Both demand and technology are critical uncertainties that have a significant impact on the skincare industry in Indonesia over the next five years.

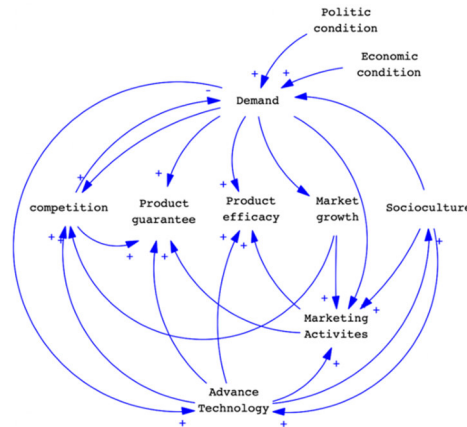


Figure 2. Causal loop diagram of driving forces in skincare industry

Stage 3: Scenarios and narrative creation

Below are the probable scenarios for the future skincare market in Indonesia in the next 5 years.

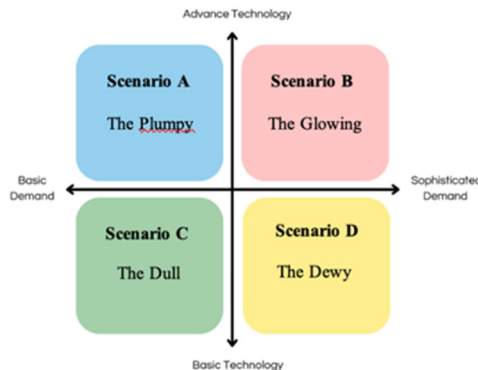


Figure 3. Scenario matrix in skincare industry

In this study, the skincare industry in Indonesia was analyzed using a 2x2 matrix to understand the potential market opportunities and challenges over the next five years. The matrix categorizes the industry based on skin condition and market opportunity, with four categories: "plumpy," representing a combination of basic demand and advanced technology; "glowing," representing a combination of sophisticated demand and advanced technology; "dull," representing a combination of basic demand and outdated technology; and "dewy," representing a combination of sophisticated demand and outdated technology.

The results of the analysis suggest that the skincare industry in Indonesia is likely to continue evolving over the next five years, driven by both advanced technology and consumer demand. In the "plumpy" category, the industry is expected to produce both high-quality, targeted skincare products and more affordable mass-market options that cater to individual needs. There may also be a slight increase in awareness of sustainable products. In the "glowing" category, the industry is expected to continue its growth, with a greater focus on personalized products and an increasing demand for natural and organic skincare products driven by concerns about synthetic ingredients and technological advancements.

The "dull" category represents a declining market, with basic demand and outdated technology leading to a decrease in market share and the development of more basic, mass-market products. Finally, in the "dewy" category, the industry is expected to be influenced by both standard technology and sophisticated consumer demand, resulting in the development of effective products and the introduction of new, innovative offerings. Overall, this analysis highlights the importance of both advanced technology and consumer demand in shaping the future of the skincare industry in Indonesia. Companies operating in this industry should carefully consider these factors in order to succeed in a competitive and rapidly evolving market.

Stage 4: option consideration

Table 2. Implications and Options

The Plumpy	
Basic demand, Advance technology	
Implications	Options
<ul style="list-style-type: none"> • The main customer requirement only in product efficacy • Information dissemination is wider and promotions are targeted • There is an increase in the use of attractive marketing strategies to attract consumer interest and increase sales • High-quality skincare products can also increase product prices. • Customers are well educated 	<ul style="list-style-type: none"> • Incessantly promoting the efficacy of the product and the added value it offers. • Customer engagement needs to be built by providing products that meet consumer needs, and using strong and consistent branding. • Skincare companies must consider to attract customer to buy and shift to high quality product. • Company should be honest and clear regarding to quality and efficacy • The Company can optimize their expenditures by implementing efficiency measures and increasing productivity
The Glowing	
Sophisticated demand, Advance technology	
Implications	Options
<ul style="list-style-type: none"> • The market demand high-quality skincare products that use the latest technology • Customer requirements are getting higher, not only product efficacy, product guarantee, and high quality but also the ethical requirements • The increased demand for high-quality skincare products can also increase product prices. • Customers are more critical for safety validation and ingredients • Price no longer main consideration as quality is more important 	<ul style="list-style-type: none"> • Skincare companies must incur additional costs for new technology investments in order to produce products that meet consumer needs. • Adopt various claims such as no animal testing, coral safe, vegan, cruelty-free from authorized agencies • Branding must be valuable, strong and become top of mind by provide high-quality and unique products that cannot be found in the market. • Company need to have their claims verified • Company must have an advantage in terms of the products offered, production technology, marketing strategies, and customer service.
The Dull	
Basic demand, Basic technology	
Implications:	Options:
<ul style="list-style-type: none"> • The requirement of demand is not much just for basic such as BPOM label 	<ul style="list-style-type: none"> • The company can optimize production by using existing technology and does not need to incur additional costs for new technology investments.

- The technology used is not too complicated such as direct selling
- Economic aspect will affect the needs of skincare which is just for an essential product (facial wash, moisturizer, and sunscreen)
- A price war might happen because customer purchasing power is low
- The adaptation level for the company is not too intense
- Selling price as cheap as possible
- Find alternative materials and companies must have effective marketing strategies to attract consumer interest and increase sales.
- More quantity is the best strategy to achieve economic of scale

The Dewy

Sophisticated demand, Basic technology,

Implications	Options
<ul style="list-style-type: none"> • Imported products that have sophisticated technological innovations are more desirable • The certain customer have a specific requirements • High degree of adaptation to demand requirements • The increased demand for high-quality skincare products can also increase product prices • The increased demand for high-quality skincare products can also increase company expenditures 	<ul style="list-style-type: none"> • The company must have the right technology to produce products that meet consumer needs. If necessary investing in new technology of product and marketing or collaboration with high-tech skincare manufacture • Clear segmentation is a needed • Company need to ensure that the products offered must be in accordance with their claims • Skincare companies must have strong marketing strategies to attract consumer interest and increase sales • The company must consider this and adjust product prices based on quality and consumer demand • Increase the value added of product, so that specific customers want to buy

Stage 5: Integration

Table 3. Early Warning Signals

Indicators	Measurement	Scenario A	Scenario B	Scenario C	Scenario D
Demand	CPI	(≥100)	(≥120)	(≤80)	(≥100)
	Retail sales	Positive	Positive	Negative	Positive
	Pricing by brand	Price competition occurred	There is an increase in prices by skincare brands	There is intense price competition	There was an increase in prices by skincare brands
Customer Requirement	Customers	Customers prioritize product quality and are starting to be interested in other factors such as design or packaging.	Market demand for high-quality skincare products that utilize the latest technology	There is a limitation in market demand for more innovative or high-quality products.	High-quality skincare and imported products are experiencing high sales in Indonesia.
		The increase in high-quality products in order to compete in the	Product quality becomes more important over price	The company's level of adaptability to changing environments is	

		market and justify price increases.		not particularly intense.	
Trend movement		Early adoption of a skincare brand that involve ethical and sustainable beauty standards are popular.	Many skincare brands that demonstrate ethical and sustainable beauty standards are popular.	There is no skincare trend movement	Trends from countries such as Thailand, Japan and Korea are well adopted
Competition		The level of adaptation made by skincare brands to the demands of moderate needs The combination of New innovations and fair prices are popular	Many new entrants skincare brands. The level of adaptation made by skincare brands to the demands of needs is too intense New innovations are being released.	The level of adaptability that skincare brands demonstrate towards meeting needs is not particularly intense. New innovations are not popular.	The level of adaptation made by skincare brands to the demands is too intense New innovations are popular.
Technology	Product development	The technology in skincare industry continues to develop	Many companies are investing in technology of skincare	There are not many skincare companies interested in developing more advanced technology	There is a collaboration between the skincare company and investors to make investments in technology In Indonesia.
	Distribution channel	Sales on various platforms	Sales on various platforms	Traditional sales	Sales on various platforms
	Marketing tools	Using various marketing tools	Using various marketing tools and high promotion activities.	Prioritizing marketing tools that support cost-effective measures.	Using various marketing tools

It is important for skincare companies to consider a range of strategies in order to effectively promote their products and build customer engagement. These strategies include focusing on the value and benefits of the product, investing in new technology, providing exceptional customer service, using strong and consistent branding, staying up to date on industry trends, adopting various claims, forming prices, and being transparent and honest about product quality and efficacy. By implementing these strategies, skincare companies can differentiate themselves from competitors, build customer loyalty, and increase market share. The strategy employed depends on the scenario that occurs, so the intensity will vary or there will be an additional new strategy that will be explained in detail in the strategy roadmap. These comprehensive strategy roadmaps effectively navigate the changing market conditions and help the company achieve its goals.

Table 4. Implementation & Justification

No.	Strategy Action	Timeline / year				
		1	2	3	4	5
The Plumpy (Basic demand, Advance technology)						
1	Invest in technology for product				■	■
2	Product development towards natural, sustainable, organic ethical, personalized				■	■
3	Adjust prices	■	■	■		
4	Service excellence				■	■
5	Up to date on product				■	■
6	Boost up marketing budget and strategies	■	■	■		
7	Focus on sales volume					
The Glowing (Sophisticated demand, Advance technology)						
1	Invest in technology	■	■	■	■	■
2	Product development towards natural, sustainable, organic ethical, personalized	■	■	■	■	■
3	Adjust prices	■	■	■	■	■
4	Service excellence	■	■	■	■	■
5	Up to date on product	■	■	■	■	■
6	Boost up marketing strategies	■	■	■	■	■
7	Focus on sales volume					■
The Dull (Basic demand, basic technology)						
1	Invest in technology					■
2	Product development towards natural, sustainable, organic ethical, personalized					
3	Adjust prices	■	■	■	■	■
4	Service excellence	■	■	■	■	■
5	Up date on product			■	■	
6	Boost up marketing strategies	■	■	■	■	■
7	Focus on sales volume	■	■	■	■	■
The Dewy (Sophisticated demand, basic technology)						
1	Invest in technology				■	■
2	Product development towards natural, sustainable, organic ethical, personalized	■	■	■		
3	Adjust prices					
4	Service excellence	■	■	■	■	■
5	Up date on product	■	■	■	■	■
6	Boost up marketing strategies	■	■	■	■	■
7	Focus on sales volume					■

4. CONCLUSION

To succeed in the highly competitive skincare industry, companies need to have a thorough understanding of consumer needs and preferences and adapt accordingly. This can be achieved through the are focus on consumers looking for high-quality products at fair prices. To appeal to these consumers, PT XYZ should offer products that substitute premium products in the market. Based on the analysis of the market and competition, PT XYZ should release a skincare product specifically designed to address common skin problems in Indonesia. The market competition is low and the risk is minimal, which will help PT XYZ differentiate itself from its competitors. The results of this study have identified four key scenarios that companies operating in the skincare industry may face in the next five years, based on the uncertainties of technology and consumer demand.

REFERENCES

- [1] B. P. R. Direktorat Pengawasan Kosmetik, "Data Sertifikasi Sarana Kosmetik," 2022.
- [2] GlobalData, "Indonesian skincare market to grow at 8.9% CAGR through 2026, forecasts GlobalData," Apr. 28, 2022.
- [3] Y. D. Damaledo, "96,7% Millennial dan Gen Z Indonesia Pilih Produk Ramah Lingkungan Baca selengkapnya di artikel "96,7% Millennial dan Gen Z Indonesia Pilih Produk Ramah Lingkungan," Sep. 21, 2022.
- [4] A. Domi and B. Krasniqi, "Entrepreneurs' Responses to an Economic Crisis: Evidence from a Transitional Economy," in *Societal Entrepreneurship and Competitiveness*, Emerald Group Publishing Ltd., 2019, pp. 185–202. doi: 10.1108/978-1-83867-471-720191013.
- [5] H. Kobayashi, Y. Hara, and T. Usui, "Trust building process for new market entrants: a case study of a Japanese cosmetics company's business expansion in China," *Journal of Business and Industrial Marketing*, vol. 32, no. 6, pp. 801–812, 2017, doi: 10.1108/JBIM-06-2015-0108.
- [6] G. Bortoluzzi, S. Kadic-Magljalic, M. Arslanagic-Kalajdzic, and B. Balboni, "Innovativeness as a driver of the international expansion of developing markets' firms: Evidence of curvilinear effects," *International Marketing Review*, vol. 35, no. 2, pp. 215–235, 2018, doi: 10.1108/IMR-11-2015-0258.
- [7] Y. Badulescu, A. P. Hameri, and N. Cheikhrouhou, "Evaluating demand forecasting models using multi-criteria decision-making approach," *Journal of Advances in Management Research*, vol. 18, no. 5, pp. 661–683, Oct. 2021, doi: 10.1108/JAMR-05-2020-0080.
- [8] J. Derbyshire and E. Giovannetti, "Understanding the failure to understand New Product Development failures: Mitigating the uncertainty associated with innovating new products by combining scenario planning and forecasting," *Technol Forecast Soc Change*, vol. 125, pp. 334–344, Dec. 2017, doi: 10.1016/j.techfore.2017.02.007.
- [9] R. Vecchiato, "Scenario planning, cognition, and strategic investment decisions in a turbulent environment," *Long Range Plann*, vol. 52, no. 5, Oct. 2019, doi: 10.1016/j.lrp.2019.01.002.
- [10] J. Balarezo and B. B. Nielsen, "Scenario planning as organizational intervention: An integrative framework and future research directions," *Review of International Business and Strategy*, vol. 27, no. 1, Emerald Group Publishing Ltd., pp. 2–52, 2017. doi: 10.1108/RIBS-09-2016-0049.
- [11] L. M. Roiter, I. v. Vedenkina, and A. G. Akopyan, "Scenario planning as a mechanism to respond to changes in market environment indicators," in *IOP Conference Series: Earth and Environmental Science*, Nov. 2019, vol. 341, no. 1. doi: 10.1088/1755-1315/341/1/012024.
- [12] P. Hanafizadeh, A. Kazazi, and A. J. Bolhasani, "Portfolio design for investment companies through scenario planning," *Management Decision*, vol. 49, no. 4, pp. 513–532, May 2011, doi: 10.1108/00251741111126468.
- [13] A. Açikgöz, G. P. Latham, and F. Acikgoz, "Mediation of scenario planning on the reflection-performance relationship in new product development teams," *Journal of Business and Industrial Marketing*, vol. 36, no. 2, pp. 256–268, Feb. 2021, doi: 10.1108/JBIM-07-2019-0321.
- [14] M. N. K. Saunders, A. Thornhill, and P. Lewis, *Research Methods for Business Students*, (8th ed.). Pearson International Content, 2020.
- [15] P. Schindler, *Business Research Methods*, 14th ed. McGraw-Hill Higher Education (International), 2021.
- [16] V. Anderson and L. Johnson, *Systems Thinking Basics: From Concepts to Causal Loops*, First. Acton: Leverage Network, Inc , 1997.