

# Halal Product Market Expansion: A Study of Wardah Cosmetics in Malaysia

Kurniawan

<sup>1</sup>*Department of Management, Faculty of Business and Humanities, Nusa Putra University, Sukabumi, Indonesia*

## ABSTRACT

Wardah cosmetic brand from PT. Paragon Technology and Innovation, became The Most Search on Google and at the same time became the beauty product brand with the highest total sales in e-commerce in 2020. Wardah is a cosmetic brand with a halal concept that has high popularity in Indonesia and has started exporting its products to Malaysia in 2017. The company profile needs to be known first so that existing development of Wardah expansion in Malaysia and the development possibility of Wardah expansion in other foreign Halal Market can be adequately identified. To get these facts and possibilities, we need a search for information, which is obtained through various articles, news, and journals. This case study's final result is to provide recommendations for Wardah, especially for its foreign Halal market expansion. The UAE can be placed in the first potential Halal market position for Wardah foreign expansion and Pakistan in the second position.

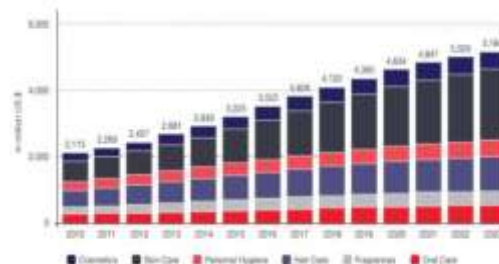
Keywords:

**Keyword** *Cosmetics, foreign market, halal market, market expansion, Wardah*

## 1. Introduction

The beauty industry is an industry whose growth tends to be stable and can withstand various economic crises. Data from McKinsey shows the beauty industry generates the US \$ 500 billion per year. Reporting from McKinsey, during this pandemic, the beauty industry is still relatively resilient even though it has experienced a decline. In China, for example, the beauty industry fell 80% in February compared to 2019. But in March, the decline was 20% over the same period. McKinsey predicts that the global beauty industry will decline by 20-30% by 2020. WFH caused a crisis in the use of makeup and fragrances. For top brands, McKinsey posted 55 and 75% decreases for cosmetics and fragrances compared to last year. In fact, skincare, hair care, and bath & body products are predicted to be profitable because consumers do their own care at home (Hana, 2020).

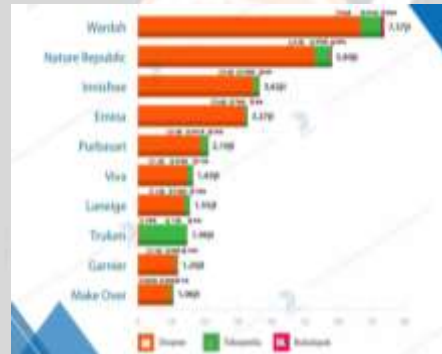
Indonesia is a market for cosmetic products that are quite potential, so this business is quite promising for cosmetic manufacturers who want to expand their business. Data from the Ministry of Industry in 2018 noted that the development of the national cosmetics industry has increased by 20% or four times the national economic growth in 2017. Figure 1 shows the development of the cosmetics market in Indonesia in the 2010 to 2023 projection. Every year the cosmetics market in Indonesia shows an upward or increasing trend until 2023. Skin Care products are the products with the highest development among other beauty product categories. Although not as many as skincare products, the number of cosmetic products has grown by 2 to 2.5 times in 10 years.



Source: Yohana (2020)

Figure 1. Beauty Market Development in Indonesia

Along with technological developments and the increase in active internet users both in Indonesia and in the world, the e-commerce market has become a potential place to market products. Likewise with the marketing of beauty products. In 2020, The Indonesian Digital Marketing Association conducted research related to the Beauty Brand E-Commerce Report. In this study, three product brands were produced by PT. Paragon's Technologies and Innovations fall into two categories, namely Google Monthly Search and Total Sales. Wardah became The Most Search on Google in 2020 with a number of searches of 831 thousand. Emina is also ranked second most searched on Google with 88 thousand searches. This indicates that these two brands can be said to be familiar and well-known among consumers who love beauty products. The two beauty product brands owned by PT. Paragon's technology and innovation are even able to outperform South Korean beauty products which are becoming a trend among consumers who love beauty products. Beauty product formulations from South Korea are used as the main reference for trends and development of beauty products in Indonesia, especially for skincare and cosmetics. Also, Wardah is a beauty product brand with the highest total sales in e-commerce with 7.37 million products sold in 2020. Meanwhile, Emina's and Make Over's total sales in the three most popular e-commerce in Indonesia in row 3, 27 million and 1, 06 million. Wardah won the 2020 Indonesian e-commerce market in the beauty product category. The number of sales of Wardah beauty products exceeds the beauty product from South Korea, Nature Republic, which is very popular among beauty product lovers, especially skincare and cosmetics.



Source: Asosiasi Digital Marketing Indonesia (2020)

Figure 2. Beauty Brand E-Commerce Report 2020 Total Selling (Pcs)

Wardah, who has high popularity in Indonesia with the concept of Halal cosmetics, started exporting products to Malaysia in 2017. In fact, Wardah products have entered the Malaysian market since 2012 through cooperation with small local distributors. In 2018, the Indonesia Halal Lifestyle Center (ILHC) stated that Wardah was listed as the third-largest exporter in Malaysia (CNN Indonesia, 2018). In fact, PTI exported 122.6 billion Wardah brand cosmetic and facial care products in the October 2020 period. Based on these various things, this paper seeks to answer the following questions:

1. How is the development of Wardah expansion in Malaysia?
2. How is the development possibility of Wardah expansion in other foreign Halal Market?
3. What recommendations are needed related with Wardah foreign Halal market expansion?

## 2. METHODOLOGY

The following section describes the steps taken in this research to be completed systematically, directed, and transparent. The flow of this research is as follows:

1. Search for news articles and journal articles

Journal searches were carried out on various sources. Keywords used to obtain appropriate journals are about Paragon company profile, Paragon expansion activities in Malaysia, Halal market, various other relevant articles.

2. Selecting articles

News articles and journals generated from the search phase are then selected accordingly.

### 3. Conduct a review of the selected article

The articles that have been found and selected are then reviewed to get a company profile and summarize Wardah expansion in Malaysia and Wardah expansion possibility to other Halal Market overseas.

### 4. Making recommendations

The final stage is to make recommendations related with Paragon overseas expansion to Halal Market overseas.

## 3. COMPANY BACKGROUND

### 3.1 Vision, Mission, and Values

PT. Paragon Technology and Innovation has a vision to become a company committed to having the best corporate governance and continuous improvement, in order to make each day better than yesterday, through high-quality products that benefit the Paragonians, partners, society, and the environment (Paragoncorp, 2021). Paragon's missions in realizing the company's vision are as follows:

1. Developing Paragonians. Paragon continuously learns and develops competent Paragonian with a competitive advantage.
2. Creating Kindness for Customers. Paragon listens to customer needs and create products beyond customers' expectation.
3. Continuous Improvement. Paragon constantly innovates in every process to improve our product quality.
4. Grow Together. Paragon works together with business partners for mutual benefits.
5. Preserving the Earth. Paragon tries its best to protect the earth sustainably as it provides all human needs to live.
6. Supporting Education and Health of the Nation. Paragon supports the development of new generations through the development of human resources to be knowledgeable, experienced, and healthy.
7. Developing Business. Paragon expands its ranges of products, services through business expansion

Paragon has a very complex mission that not only serves consumers and internals but for the wider community and the surrounding environment. This is in line with the company's mission to bring benefits to Paragon employees or often called Paragonian, partners, communities, and the surrounding environment. Paragon's commitment to the environment is Paragon's mission to Preserve the Earth. Paragon always tries its best to protect the earth in a sustainable manner because it provides all human needs to live. Meanwhile, Paragon's mission to the wider community is carried out through Supporting National Education and Health. Paragon supports the development of a new generation through the development of human resources who are knowledgeable, experienced, and healthy. In addition to having a vision and mission that is the direction of the road or the Paragon compass in carrying out business activities, there are five core values that are new to every Paragonian. The five core values of the company owned by Paragon are as follows:

- a. Faith in God. Paragonian believes in the existence and power of God.
- b. Humility. Paragonian realizes that everyone has strengths and weaknesses.
- c. Innovation. Paragonian always develops new and better things to meet and exceed customer expectations.
- d. Care. Paragonian upholds the value of togetherness and compassion.
- e. Grit. Paragonian lives a life with great joy and willpower

### 3.1 Company Development Journey

Paragon was founded on February 28, 1985 under the name PT. Pusaka Tradisi Ibu. Paragon is a large company in Indonesia that is engaged in cosmetics. PT. Pusaka Tradisi Ibu initially produced hair care products branded Putri with Salon's Best Choice. In 1985-1990, PT Pusaka Tradisi Ibu experienced rapid development. In 1990 PT Pusaka Tradisi Ibu established a production factory in the Cibodas Industrial Estate, Tangerang to increase production capacity. In 1995 PTI was launched and started developing Wardah Cosmetics products but it did not work well due to poor management. In 1999-2003, Wardah's sales experienced a rapid and moderate increase in the second. and in 1999 the Paragon factory obtained a Halal certificate from LPPOM UI with Wardah as the pioneer of the Halal Brand in Indonesia and also received an award from the World Halal Council. Another factor was then established in the Jatake Industrial Estate, Tangerang, and started operations in 2001. In 2006, Paragon was certified GMP (Good Manufacturing Product) or CPKB (Good Manufacturing Practices). In 2010, Paragon launched Make Over Brand. PT. Pusaka Tradition Ibu changed its name to PT. Paragon Technology and Innovation. In 2015, Paragon launched a new brand called Emina and a brand called Kahf in 2020 (Paragoncorp, 2021). In 2016, Paragon prepared a logistics service company, PT Parama Global Inspira, which focuses on distributing its products to

consumers. Currently, Paragon has more than 10,000 employees, has produced more than 95,000,000 personal and facial care products every year, and has more than 1.600 Stock Keeping Unit (SKU) Products (Susanti, 2020).

### 3.2 Segmentation of Product

PT. Paragon Technology and Innovation (Paragon) is one of the largest cosmetic companies in Indonesia. Paragon is an example of a company that can produce more than one cosmetic brand. Paragon's flagship brands include Wardah, Make Over, Emina, and most recently Kahf. Wardah is a pioneering brand of halal-certified cosmetics and has a concept that halal lifestyle and beauty products can be integrated well. Make Over is a cosmetics brand with the slogan "beauty over the rules" which has the concept that beauty can belong to everyone. Emina is a cosmetic brand with a fun concept that is declared safe, lightweight, and easy to apply. Kahf is a self-care brand for men and is inspired by nature (Paragoncorp, 2021).

The strategy undertaken by Paragon is by releasing more than one cosmetic brand. Through the Wardah, Make Over, and Emina brands, Paragon has carried out a psychographic segmentation process. Paragon released the three brands targeting different market lifestyles. Meanwhile, in the release of the Kahf brand, Paragon has carried out demographic segmentation. Paragon can also expand market reach by adding male consumer groups as a target market. The product categories offered by Paragon under the Kahf Brand, namely Face Wash, Hair and Body care, Eau De Toilette, Beard Care, and Deodorant. Kahf's products are all Halal, non-comedogenic, and non-acneogenic. All products are claimed to be products that have been clinically tested or tested by dermatologists (Ghivarianto, 2020).

### 3.3 Company Business Coverage

Paragon is divided into 3 departments to make it easier for Paragonians to do their job, namely Head Office (HO) located in Ulujami, South Jakarta, Plant (Factory) located in Jatake, Tangerang, and Distribution Center (DC). DC Paragon is divided into 6 coverage areas, namely Java Island, Sumatra Island, Sulawesi Island, Nusa Tenggara Islands (Bali), Kalimantan Island, and Southeast Asia (Malaysia). DC Paragon serves to value every product from the National Distribution Center (NDC) so that it is affordable to consumers. DC's functions include distribution, human capital area, marketing, and sales. The total DC owned by Paragon is 41 units, including 1 DC in Malaysia.

## 4. CASE ANALYSIS

### 4.1 How is the development of Wardah expansion in Malaysia?

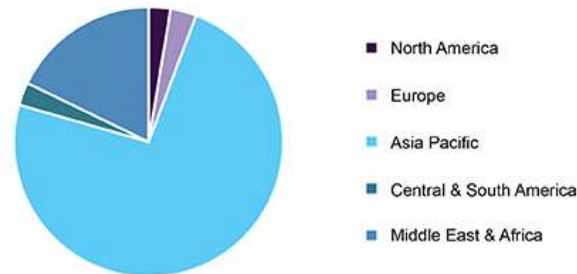
The opportunity to export cosmetic products is still wide open due to world demand. Malaysia is the country with the highest demand for cosmetic products (Prayoga, 2020). The world's cosmetic and perfume products in 2019 were recorded at the US \$ 82.40 billion and exports of Indonesian cosmetic products amounted to the US \$ 135.67 million for the January-August 2020 period. Indonesia's cosmetics trade balance for the January-July 2020 period showed a surplus of US \$ 20, 09 million. The development of the Indonesian cosmetics market has made cosmetics one of the potential export contributors to Indonesia in the future.

Since 2012, PT Paragon Technology and Innovation has started exporting Wardah products to Malaysia in collaboration with small local distributors. PTI International business vision is to provide the easiest possible access for those who need Halal Cosmetic products (Dwijayanto, 2018). In 2017, PT Paragon Technology and Innovation Extensive distribution coverage in Malaysia. Paragon exports Wardah to Malaysia through the Watsons and Guardian retail chains. Paragon's exports to Malaysia continue to increase every year. In 2017, Wardah's exports to Malaysia amounted to IDR 15.4 billion or the US \$ 1.1 million. In 2018 the number of exports has doubled to Rp31.8 billion. Exports of Brand cosmetics products worth Rp. 122.6 billion to Malaysia as of October 2020, growing by around 33% per year. In 2020 PT Paragon Technology and Innovation has released its 53rd export container which is all shipped to Malaysia. So far Paragon has exported a total of 115 product containers from 2017 to October 2020 (Sekarwangi, 2020).

The Indonesian Minister of Trade, Agus Suparmanto, conveyed in the Halal Industry webinar on 24 October 2020 that Malaysia is the export destination country for Halal cosmetics with the highest position is 43.65%. The UAE is the second-largest export destination for Indonesian cosmetics after Malaysia. Furthermore, Yemen, Saudi Arabia, and Pakistan are the top three export destinations after Malaysia and the UAE. As for beauty products which are the leading export products for the January-July 2020 period, including 1) Shampoo (31.7%), 2) Hair Preparation (29.05%), 3) Skincare Cosmetics (21.89%) , 4) Powder (8.88%), and 5) Deodorant (5.75%)

### 4.2 How is the development possibility of Wardah expansion in other Foreign Halal Market?

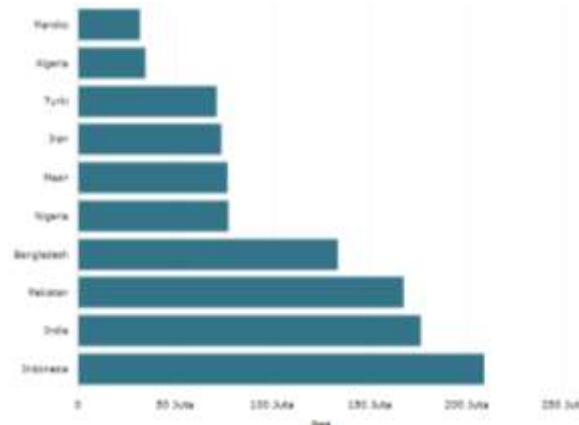
Halal cosmetics have registered substantial adoption among Muslim consumers due to trending beauty products and increased demand for personal grooming that adhere to religious loyalties. The halal cosmetics market growth is driven by growth in the Muslim population, development of the halal market, and rise in compliance with halal certification. Additionally, numerous players involved in the halal cosmetics market create a productive growth opportunity for the global halal cosmetics market. With the growth in the Muslim population, the various players such as L'Oreal, P&G, Unilever, and others have impending opportunities to penetrate the halal cosmetics industry to meet the growing demands for halal cosmetic products.



Source: Grandview Research (2019)

Figure 3. Global Halal Cosmetics Market Share, by region, 2018 (%)

Research study states that 20% of the global Muslim population is concerned about halal issues with the products they are using. Growth of the market is mirrored by the consumer knowledge about the ingredient used and product awareness. Social media has raised the awareness of use of halal certified cosmetic products which is going to boost the demand for halal cosmetic products across the globe. Some of the key players operating in the Halal cosmetics market are Amara Cosmetics, Pure Halal Beauty, SAAF International, Sampure Minerals, Inika Cosmetics, Martha Tilaar Group, One Pure, Ivy Beauty, MMA Biolab, The Halal Cosmetics company, Clara International, INGLOT, Jataine, Le Wangi De Wangi (imarc, 2020). In an addition, Zadoks (2020) also stated that some of the key players operating in the Halal cosmetics market are EL Asira, Samina Pure Makeup, Wardah Cosmetics, and Zuii Organic. The global halal cosmetics market accounted for US\$ 26 billion in 2019 and is estimated to be US\$ 86.2 billion by 2029 and is anticipated to register a CAGR of 12.9%. The market report has been segmented on the basis of product type, application, distribution channel, and region (Phropey Market Insight, 2020). By product type, the personal care product segment dominates the target market owing to the growing number of Muslims willing to combine personal hygiene with religious observances. By application, halal hair care products include hair oil, hair shampoo, hair gel, conditioner, hair massage creams, and others. Haircare application has been registering a leading position in the halal cosmetics application over the years due to the desire for healthy hair and specific interest along with hair styling, particularly among Muslim women. By distribution channel, the target market is segmented into the Offline and Online sectors. And by region, Asia Pacific is expected to capture the largest market share due to emerging countries such as India, Malaysia, Bangladesh, Pakistan, Indonesia coupled with improving social-economic factors (imarc, 2020). Asia Pacific halal cosmetic product market is estimated to reach USD 2.9 billion by the end of 2023 witnessing a compound annual growth rate of 9.4% over the period of forecast, Asia Pacific market is expected to be remunerative region owing to the increasing Muslim consumer base with rising personal grooming needs and rising demand of vegan friendly cosmetics in the region. The increasing trend of global halal cosmetics market share in the Asia Pacific shows that this market can be a potential foreign market for Wardah as a halal cosmetic brand.



Source: Databox Katadata (2016)

Figure 4. Ten Countries with The World Largest Islamic Population

By looking at the data for countries with the largest Muslim population in the world in Figure 5, there is a possibility that Wardah's export destination countries will further expand. Among these countries are India, Pakistan, and Bangladesh. The three countries have a fairly large halal market according to demographic aspects. In addition to reviewing demographic aspects in planning for expansion or determining future foreign markets, it is also necessary to conduct observations and research on the existing tax and legal systems in potential export destination countries. Its constituents for trade agreements between Indonesia and potential destination countries can be used to open Wardah's next distribution channel.

#### 4. FINDINGS

The opportunity to export cosmetic products is still wide open due to world demand. Wardah's opportunity to enter the Halal market is still very open. This is because the development of the market for Halal products, including cosmetics, is increasing rapidly. The increase in the world's Muslim population who are potential consumers of Wardah's products, technological developments (e-commerce) and trade agreements can make Wardah's entry into the foreign Halal market more wide open. Malaysia and the UAE are the two countries that are the largest cosmetic markets for Indonesia. Having carried out the export of Wardah products to Malaysia is the right step to expand the distribution area. The existence of the UAE, as well as three potential countries for the halal market, must be considered and taken seriously. The large market size for the halal market is an important benchmark before Wardah formulates the selection of which potential new market to choose. UAE and Pakistan are the two countries that are included in the five biggest cosmetic export destinations for Indonesia, UAE (24.12%) and Pakistan (3.5%).

#### 5. RECOMMENDATIONS

If a country priority scale must be carried out which will be used as a new market penetration step for Wardah's halal products, then between the two countries, the UAE can be placed in the first potential market position and Pakistan in the second position. The election of the UAE as a potential foreign market in terms of several aspects are as follows:

1. The UAE in population and area can be classified as medium, but economically very influential for the Middle East
2. The UAE is the second-largest export destination for Indonesian halal cosmetics
3. The closeness of the leaders of the two countries as positive capital for entrepreneurs and companies of the two countries. It is the golden period for the economic diplomacy of the two countries
4. Strengthened of RI-UAE economic cooperation in 2020

With the existence of very strong capital between RI-UAE, it is necessary to do further research on the market in the UAE market. After conducting market research, the next step is to reserve a local team and cooperate with entrepreneurs or goods distribution channels in the UAE. It could also be the same as the way Wardah entered the Malaysian market, namely through the Watsons Guardian network. If all of this has been completed, the next step is

to prepare a marketing and service plan. One of the ways to do marketing is through electronic and print media advertisements that are made with attention to the UAE market trends at that time.

Table 1. Wardah Expansion SWOT Analysis

EFAS	IFAS	
	Strengths (S)	Weaknesses (W)
Opportunity (O) 1. The UAE is economically very influential for the Middle East 2. The majority of the population is Muslim 3. The closeness of state leaders and the strengthening of RI-UAE economic cooperation in 2020	Strategy (SO) 1. Immediately penetrate the market for Wardah products 2. to introduce Halal products widely 3. penetrate according to the public affordability standards	Strategy (WO) 1. Provide more attractive packaging and keep up with the times and trends for Wardah products 2. Increase cooperation with other parties that have a positive influence 3. Marketing activities are further enhanced
Threats (T) 1. People still doubt the quality of Wardah products 2. Wardah products are still not in demand 3. Many competitors with better quality	Strategy (ST) 1. Maintain Wardah product quality 2. survey competitors 3. Be more active in visiting and promoting the introduction and explanation of the quality of Wardah products	Strategy (WT) 1. Provide a broad explanation to customers about the quality of Wardah products 2. Marketing activities are further enhanced 3. Maintain and always try to improve the quality of Wardah products

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